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MARCH 1998

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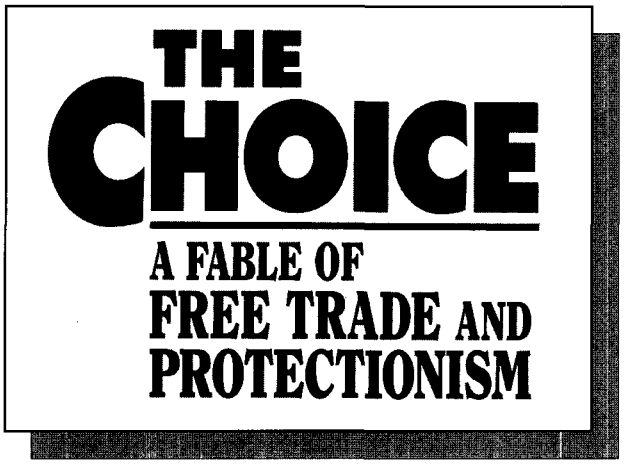

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THE FREEMAN

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PERSPECTIVE

Molecular Individualism

In his book *Reasons for Welfare: The Political Theory of the Welfare State* (1988), Robert E. Goodin claims to have caught opponents of the welfare state in a contradiction: while decrying dependency on government, he writes, they counsel people who are in difficult circumstances to rely on family, friends, and voluntary associations for assistance. Why is that form of dependency better? Goodin wonders. He argues that, in fact, the welfare state is preferable to the voluntary sector because the latter can treat the weak and vulnerable arbitrarily. In contrast, the welfare state, with its underlying theory of welfare rights, protects the vulnerable from exploitation.

Goodin manages to pack quite a few fallacies into one thesis. First, he misses the important point that the welfare state requires the confiscation of people's earnings; that is, it uses the threat of violence to obtain the resources that it then mercifully distributes. Private-sector assistance, of course, does not. There is a big moral difference, then, between relying on government and relying on voluntary forms of help. That difference has far-reaching implications. The welfare-state beneficiary who believes he has a right to other people's money is likely to be more virulently dependent than someone who accepts voluntary help rendered in a spirit of good will. Moreover, government can be arbitrary: legislators change the rules when political winds shift. Yesterday welfare, today workfare, tomorrow? Who knows? Private charity is more likely to be based on firm principle or religious conviction. That charities years ago distinguished between the deserving and undeserving poor was not a matter of arbitrariness but rather of deeply held belief.

Goodin most likely thinks that advocates of laissez faire are really "atomistic individualists" who believe people should be self-sufficient. Why an atomistic individualist would laud the marketplace has never been explained. What is more solidly rooted in cooperation—a benign dependence on others—than the market's division of labor and

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voluntary exchange? We can achieve far higher living standards and far more satisfying lives by availing ourselves of the variety of associations possible in a free society. That's a dependency no libertarian ever objected to. Call it "molecular individualism." What advocates of the freedom philosophy object to is the reliance on physical force, either directly or indirectly through the welfare state, to achieve one's ends.

* * *

In this issue, economist Dwight Lee looks ahead to his eligibility for Social Security. It occurs to him that his benefits will depend on the willingness of workers to faithfully pay their taxes. Here, in an open letter to young people, he takes his best shot at persuading them to support the system—for, ahem, their own sake.

Compromise is necessary and proper in many areas of life. But is it possible to compromise on a moral principle? Leonard E. Read takes up that question this month in our reprint series, "Anything That's Peaceful," honoring the centenary of the birth of FEE's founding president.

Homeschooling is growing, and government school officials know it. That could be why they are offering homeschooling families various tempting goodies with the inevitable strings. Chris Cardiff cautions families against getting ensnared.

Urban policy expert Sam Staley makes it his business to observe how municipal governments stifle entrepreneurship and thereby diminish the vitality of cities. He focuses on the hamstringing of the taxicab business and wonders if bureaucrats will ever learn.

When Mother Teresa died last year, people might have wondered why poverty persists in India. Economist Parth Shah, who directs the Centre for Civil Society in New Delhi, examines two possible explanations and suggests a path to prosperity.

Americans widely know that labor law permits unions in some states to force workers to be dues-paying members. Labor economist Charles Baird surveys the law and key court cases and says that is an example of knowing something that isn't so.

A prominent accounting firm set aside a day to "give something back" to the community. That, writes George Leef, implies that the firm doesn't routinely produce value for others in the course of everyday business. Was the firm unwittingly sending an anti-capitalistic message?

Historically, the jury has served as a protective layer between citizen and state through its right to nullify laws when they would produce injustice in particular cases. Today that role is kept secret. Nathan Lapp discusses the courts' usurpation of jury rights and its link to the decline of liberty.

Tibor Machan has been listening to government public service announcements and finds them wanting in the truth department. Should the government lie to us even for a "good cause"? Machan has doubts but finds a silver lining.

When John Hood branded tax-financed welfare as "theft" during a debate, an opponent argued that society had a just claim to people's incomes because it was indispensable to the production of wealth. Hood found a refutation of that argument in the works of classical liberal philosopher John Locke.

The founder of General Motors, William Durant, was an innovative and persevering entrepreneur. Burt Folsom, drawing on his new book, *Empire Builders* (which is reviewed in this issue), tells the story of this fascinating man who made so many lives better.

We could each be doing more to increase the nation's gross domestic product. Lawrence Parks has a few suggestions. But please be careful.

Our regular columnists also contribute their sparkling insights. Doug Bandow proposes a link between privatization of Social Security and repeal of corporate welfare programs; Lawrence Reed tells of privatization efforts in Michigan; and Mark Skousen comments on the new edition of Paul Samuelson's *Economics*.

The book review section spotlights volumes on topics that include exploration of outer space, Afrocentrism, immigration, education, reputation, assimilation, and the legacy of columnist Warren Brookes.

—SHELDON RICHMAN

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Social Security Can Be Good for Your Health

An open letter from Dwight R. Lee

Until recently I took every opportunity to inform my students about the financial fraud of Social Security. Given demographic realities and the Ponzi-scheme nature of Social Security, those about to enter the work force will receive an anemic return on their "investment," assuming they receive any return at all. They would be far better off, and so would the economy, if they put the amount that will be taken from them by the Social Security Administration into a real investment, such as a broad-based mutual fund.

But I'm having second thoughts about presenting only the negative side of our national retirement program to the youth of America. I'll be eligible to begin collecting Social Security payments in a few years, so I've decided to take a more positive attitude. The Social Security taxes I have already paid are sunk costs, and therefore are not costs at all. Only the future taxes and income from Social Security are relevant to my return on the program, a return that is getting better all the time. What a shame to jeopardize that return by turning the taxpayers of the future against the Social Security program, which can also be there for them some day if only they consider the bright side of the financial mugging heading their way. In the hope that the young people of today can be encouraged to stay the course with their Social Security "contributions," I am writing them an open letter telling them the rest of the story. You see, Social Security is about more noble objectives than achieving financial success. —DRL

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Dear Young People,

There simply is no better feeling in the world than sacrificing for the benefit of others. That is particularly true when your sacrifice benefits me. I want you young college students to keep that in mind the next time you hear someone criticizing the Social Security system. I will be retiring about the time you are paying large sums into Social Security, and your tax payments, I mean contributions, will be sent directly to my buddies and me so we can afford to drive enormous motor homes to the local shuffleboard courts. None of it will be invested into your own personal account for your retirement.

Some of you may be asking, but then what kind of financial return can I expect from Social Security? That is the type of question we have to expect from those who, because of the damaging effects of natural selection, insist on thinking of themselves first. But let me consider the return a college graduate about to enter the work force can expect from Social Security. The news is better than some of you believe, especially those of you who believe an invasion by the space aliens who kidnaped Elvis Presley is more likely than Social Security being solvent when you retire. Let me give you my unwritten, but completely unenforceable, guarantee: you will receive Social Security checks when you retire. That is assuming you live past age 67, which you probably will because of a wonderful incentive built into the Social Security program for your benefit. Because of this incentive, your rate of return can be far better than the experts are now predicting. Let me explain.

Assume you work from age 22 to 67 and make only the median family income during your career. In this case your Social Security contribution will be about $3,000 a year, recognizing that you will generously help your employer with his contributions to your Social Security by accepting wages lower than you would otherwise have received. These contributions will make you eligible for Social Security payments at age 67. How much will you get? The maximum you can receive (as I write this) is $23,868, which assumes that your spouse is still alive, or at least appears to be, and also 67 or older. When you are 67, 45 years from now, the payments will be higher, assuming they keep up with inflation (your Social Security contributions will also increase with inflation, but let's ignore that minor inconvenience). Let's be optimistic and assume they will. Assuming a 3.1 percent inflation rate (the average over the last 70

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years), then your annual income from Social Security will be $91,453 at age 67. And you thought Social Security was a lousy deal.

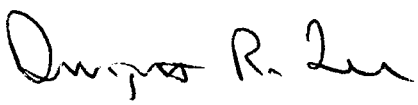
I'm tempted to rest my case right here, except someone is probably asking, "But how better off would I be if, instead of contributing to Social Security, I put the $3,000 a year into the stock market for the next 45 years? At the risk of encouraging people to think of Social Security only in crass financial terms, I will answer this question.

Over the last 70 years the stock market (as measured by the Standard & Poor's 500 index) has grown at an average annual rate of 10.9 percent. At that return, your $3,000 a year will be worth $3,182,779 when you are 67. With that amount of money, you could buy a lifetime annuity that pays over $356,000 a year. So a cynical, but completely accurate, conclusion is that the Social Security system will bamboozle you out of over $264,547 a year (the difference between $356,000 and $91,453) during your retirement.

But why be so negative? After 45 years of 3.1 percent annual inflation, $264,547 will be worth only about $69,000 in today's dollars. Also, think of the incentive Social Security gives you to take good care of yourself. You can make Social Security pay if you live long enough. The present value of your Social Security income will be worth the $3,182,779 your private investment would have provided, if you simply refuse to die until you are 125 years old. (This assumes that your annual Social Security income of $91,453 grows at 3 percent a year—good luck—and you discount the future value of that income stream by 5 percent—ask your favorite finance professor why discount is necessary.)

So Social Security is right up there with conferences on global warming as a way of promoting long life. I'm certainly keeping myself in peak condition in anticipation of benefiting as long as possible from your Social Security contributions. I don't want to go face down in my oatmeal until you young folks retire.

Sincerely,



Dwight R. Lee
Ramsey Professor of Economics
University of Georgia, Athens

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Penalty of Surrender

by Leonard E. Read

A certain business leader, perhaps among the most publicized during the last two decades, once severely lectured me on my unswerving and uncompromising behavior. He charged that I saw things only in blacks and whites. He argued that practical life was lived in shades of grays, actually in the shadows of these two extremes. He suggested that I had a nice chance of "going far" in the world, if only I would become more pliable to the thoughts and actions of my fellows. He really wanted me to be more agreeable to his middle-of-the-road political theories.

The compromising attitude is exalted by many and deplored by only a few. Most current discussions are tempered with concepts of compromise and expediency.

Compromise, like many other words, has different meanings for different persons. I want to use the term in the sense of one of the definitions given by Webster: "The result or embodiment of concession or adjustment." I wish to show that compromise is potentially good when applied in a physical sense and that it has no application whatever in a moral sense.

For example, you and your wife are spending what is hoped will be a happy evening at home. She chooses to watch TV and you elect to explore Toynbee's *Study of History*. The scene appears peaceful as you sit side by side near this piece of furniture. But to you the furniture is making a lot of distracting noise.

Here are all the possibilities for turning a cheerful evening into one of disharmony. But compromise can come to your aid. Your wife can decrease the noise of the TV to the point where she can still hear it, and you can move to some remote corner where you can comprehend Toynbee just as well as anywhere else. Harmony can thus be preserved by compromise.

Compromise in this sense is an adjustment of physical situations. It is the process by which conflicts are reduced to the point most satisfactory to all parties concerned. When thought of in this way, compromise is the great harmonizer, the attitude that makes living together—social life—a pleasure.

Indeed, the marketplace of willing exchange where tens of millions of transactions go on daily is one vast area of compromise. Buyers aim at low prices. Sellers aim at high prices. In a free market, unhampered by private thieves and political restrictions, there is an adjustment of these diverse desires. Compromise establishes the price at which the mutual satisfaction of buyer and seller is at its highest level.

It is in the physical realm that most of our daily life is lived. In this realm compromise is good and it is practical. It begets harmony and peace.

Leonard E. Read established FEE in 1946 and served as its president until his death in 1983. This article, excerpted from the April 1957 issue of The Freeman, *is the third in a monthly series commemorating the 100th anniversary of Mr. Read's birth.*

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How easy it would seem then, finding compromise so useful in such a vast segment of life, to conclude thoughtlessly that it has an equal place, a comparable value, in that phase of life which consciously occupies little of our thoughts: moral life.

Principles Defy Compromise

But this is precisely the point where I believe many of us are the victims of a confusion of terms. What is compromise in physical affairs—that is, in an adjustment of physical positions—is something entirely different when applied to principles and morality.

For example, let us make the reckless assumption that most of us are committed to the biblical injunction, "Thou shalt not steal." This is based on the moral principle that each person has the right to the fruits of his own labor. The point I wish to make—my major point—is that this *as a principle* defies compromise. You either take someone else's property without his consent, or you do not. If you steal just a bit—a penny—you do not compromise the principle; you abandon it. You surrender your principle.

By taking only a *little* of someone's property without his consent, as distinguished from taking a lot, you do compromise in the physical sense the amount you steal. But the moral principle, whatever the amount of the theft, is surrendered and utterly abandoned.

If all the rest of mankind is in favor of passing a law that would take the property, honestly acquired, of only one person against his will, even though the purpose be allegedly for the so-called social good, I cannot adjust myself both to the moral injunction, "Thou shalt not steal," and to the demand of the millions. Principle does not lend itself to bending or to compromising. It stands impregnable. I must either abide by it, or in all fairness, I must on this point regard myself as an inconsistent, unprincipled person rather than a rational, reasonable, logical one.

What Are Moral Principles?

The question immediately arises as to what constitutes principle. Here again is a term with varying meanings to different persons. I must, therefore, define what I mean.

The Ten Commandments are admonitions derived from the religious experience of an ancient people. In terms of their origin, the Commandments are cast in the form of intercepts of the will of God; in terms of their application, they are imperatives admitting of no dilution. They were expressions of principles at least to the ones who received them, and have been adopted as such by countless millions. Their acceptance springs from the studied deductions of the wiser among us, confirmed through centuries of observation and experience.

The correctness of a principle has little to do with the intensity of conviction with which a man holds it. Someone else may hold a contrary principle with like intensity. No man can get nearer to the truth than his own highest apprehension of it. Ultimate insights may differ, and such differences will always be part of the human scene. But there is another type of difference which is more pertinent to the point of this essay: the difference between those who accept unyieldingly a moral principle as their standard, and those who accept a principle watered down by "practical" considerations. John Morley, liberal English statesman and biographer, warned of this danger when he deplored the tendency to forget the principle itself in our preoccupation with the practical difficulties of applying it.

To me, "Thou shalt not steal," is a principled injunction not alone because some sage of antiquity said so, but largely because my own experience has compelled me to adopt this as a principle of right conduct which must be adhered to if I am not to destroy my own integrity, and if I am to live peacefully with my fellow men.

To those of opposite judgments, who believe that they should gratify their personal charitable instincts not with their own goods, but with goods extorted from others by the police force, who fail to see how thieving damages integrity, and who accept the practice of political plunder as right and honorable—to them, "Thou shalt not steal" must appear wrong in principle.

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Sound Judgment Required

Whether a principle is right or wrong cannot in any ultimate or absolute sense be determined by any single one of us human beings. Principles on the level of human perception are what are judged to be the rules of life or nature; what are judged to be universal, eternal verities; what are judged to be fundamental points of reference. But, human judgment is fallible. Therefore, whether a stated principle is held to be right or wrong will depend on the quality of the individual's judgment. Aristotle claimed that there were a million ways to be wrong; only one way to be right. How easy for fallible beings to decide on a wrong way!

Sound judgment leads toward right principles. No person can rise above his best judgment, and he can rise only as fast as his judgment improves. On what, then, is an improving judgment dependent? My answer is: on revelation—"The disclosing or discovering . . . of what was before unknown. . . ." Other terms for revelation are insight, cognition, inspiration, extrasensory perception. On what does revelation or insight rest? Surely, on conscious effort, education, the kind of people with whom one associates, the topics selected for discussion, what one chooses to read—all of these relate to one's perception. More fundamental, however, than anything else is intellectual integrity, without which, I am certain, the cognitive stream cannot flow at its best. Goethe expressed the idea thus:

> Nature understands no jesting; she is always true, always serious, always severe; she is always right, and the errors and faults are always those of man. The man incapable of appreciating her, she despises; and only to the apt, the pure, and the true, does she resign herself, and reveal her secrets.

Intellectual integrity simply means to reflect in word and in deed, always and accurately that which one believes to be right. Integrity cannot be compromised. It is either practiced or not practiced.

Certainly, there is nothing new about the efficacy of accurately reflecting what one believes to be right. This principle of conduct has been known throughout recorded history. Now and then it has been expressed beautifully and simply. Shakespeare enunciated the principle when he had Polonius say:

> This above all: to thine own self be true,
> And it must follow, as the night the day,
> Thou canst not then be false to any man.

Edmond Rostand had the same principle in mind when he wrote for Cyrano:

> Never to make a line I have not heard in my own heart.

The Bible announces the penalty of surrender—what it means to abandon the truth as one sees it:

> The wages of sin is death.

Whether the wages of sin be mere physical death, as when men shoot each other over ideological differences, or profound spiritual death, as in the extinction of integrity, character, and self-respect, one needs to make but casual inquiry to verify the rightness of this biblical pronouncement. Abundant testimony is being provided in our time. Nor is the end in sight.

Principles Surrendered

All the world is filled with examples of surrendered principles: men who know practically nothing about themselves trying to play God, attempting to control and forcibly direct the creative actions of others; the glamour of popularity and shallow earthly fame rather than the concepts of rightness directing the policies of nations; expediency substituting for the dictates of conscience; businessmen employing "experts" to help them *seem* right, often at the expense of rightness itself; labor leaders justifying any action that gratifies their lust for power; political leaders operating on the premise that the end justifies the means; clergymen preaching expropriation of property without consent in the name of the "common good"; teachers not explaining but

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advocating coercive collectivism; aspirants to public office building platforms from public opinion polls; farmers, miners, and other plunderbundists uniting with the police force to siphon others' labor; arrogance replacing humility; in short, surrender of principle appears to be the distinguishing mark of our time.

If we were suddenly to find foreign vandals invading our shores, vandals that would kill our children, rape our women, and pilfer our industry, every last man of us would rise in arms.

Yet, these ideas born of surrendered principles are the most dangerous vandals known to man. Is the Bible right that the wages of sin is death? Observe the growth of domestic violence. Note the extent to which the organized police force—government—promotes and enacts plunder rather than inhibits it. Scan the last forty years of war, hot and cold; wars to end wars, each serving only as a prelude to larger wars. And, today, we worldlings, in angry and hateful moods, stand tense and poised to strike out at each other, not with shillelaghs, pistols, hand grenades and cannons, but with mass exterminators of the germ and atom types, types that only a people of surrendered principles could concoct.

Is Honesty Dangerous?

Perhaps it is timidity that prevents many a man from standing squarely on his own philosophy and uttering nothing less than the highest truth he perceives. He fears the loss of friends or position. Actually, the danger lies in the other direction, in settling for less than one's best judgment.

Does it take courage to be honest? Does one have to be brave to express the truth as he sees it? Indeed, *it is not dangerous to be honest*, but rather a mark of intelligence. Being honest and adhering to principle requires intelligence more than courage. Courage without intelligence makes men blusterous and cantankerous with their views; they offend with their honesty. But, the villainy in that case is their cantankerousness, not their integrity.

Finally, some may contend that even if everyone were a model of intellectual integrity, by reason of the great variety of judgments, differences would still remain. This is true. But differences lead in the direction of truth in an atmosphere of honesty. Honest differences are livable differences.

Life in a physical sense is a compromise, a fact that need not concern us. But, when vast numbers of people surrender living by what they believe to be right, it follows that they must then live by what they believe to be wrong. No more destructive tendency can be imagined.

Honesty—each person true to his highest conscience—is the condition from which revelation springs; from which knowledge expands; from which intelligence grows; from which judgments improve. It is a never-ending, eternally challenging—a thoroughly joyous—process. Indeed, it *is* living in its higher sense. □

"Principles do not permit of compromise; they are either adhered to or surrendered."

—Leonard E. Read,
Anything That's Peaceful

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IDEAS ON LIBERTY

The Seduction of Homeschooling Families

by Chris Cardiff

Do the public school authorities feel threatened by homeschooling? Judging by their efforts to lure homeschooling families into dependence on local school districts, the answer is apparently yes.

For the last several years, homeschooling has been the fastest growing educational alternative in the country. Estimates of its growth rate typically range from 15 to 25 percent annually. Homeschoolers are notoriously difficult to count; however, the National Homeschooling Research Institute believes that currently 1.2 million children get their education at home. While that constitutes only about 2 percent of all school-age children, it's more than 20 percent of those who are outside the government educational system. And, with a 20 percent annual growth rate, another quarter million children will join the homeschooling movement this year.

The sheer number of homeschoolers represents a distinct threat to the hegemony of the government school monopoly. Qualitatively, the academic success of homeschoolers, measured by standardized test scores and recruitment by colleges, debunks the myth that parents need to hire credentialed experts to force children to learn.[1]

Homeschooling also refutes the "more money equals better education" mantra of the teachers unions. The average homeschooling family spends approximately 10 percent of the per-pupil costs associated with government schools in achieving those academic results.[2] Multiplied by the number of homeschoolers, even these modest amounts add up to a sizeable market attracting numerous educational entrepreneurs.

Besides challenging the legitimacy of government schools, homeschoolers also pose a more direct economic threat. Funding for government schools is based on attendance, with a national average of almost $6,000 per student.[3] Homeschooled children represent over $7 billion out of reach of local government schools, and, at its current growth rate, each year over $1 billion more slips away.

Politically, homeschoolers are a force to be reckoned with when their rights are endangered. The most highly publicized and effective example of their growing political clout occurred in 1994, when the House of Representatives inserted language into an educational appropriations bill that would have required all teachers to be credentialed. Homeschoolers perceived that provision as a threat to their autonomy and overwhelmed phone and fax lines to their representatives until the credentialing language was removed by a 424-1 vote.

Homeschooling's economic and political impact is keenly felt by teachers unions, educational bureaucrats, ideological indoctrinators, and other beneficiaries of today's system. What will happen when the growing

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number of homeschooling families withdraw their political support for the enormous taxes required to fund today's $300 billion government system?

To combat those threats, defenders of the status quo are fighting back with all the legal, legislative, and economic weapons at their disposal. The most insidious of these tactics is the systematic undermining and co-opting of the homeschooling movement by establishing government homeschooling programs. Those programs set seductive lures before families by providing "free" resources, teachers, extracurricular activities, facilities, and even cash reimbursement.

When enough families have voluntarily returned to the government system, it will be a relatively straightforward matter to recapture the rest by imposing mandatory homeschooling oversight regulations. Will this seduction succeed in eliminating independent homeschoolers and derailing the growing free market in education? Economics and the history of private schools versus government schools provide ample lessons on what to expect.

The Birth of a Free Market in Education

The term "homeschooling" is a bit of a misnomer. To many people the word conjures up a vision of mom instructing her kids around the kitchen table—a myth perpetuated by the media, which invariably demand that particular image to illustrate their stories. The reality is far different. While instruction around the kitchen table does indeed occur in most homeschooling families, the flexibility and range of homeschooling encourages an enormous variety of alternative educational models. Those models range from child-led, interest-based learning (unschooling) to the traditional classroom model with professional teachers. They include distance learning, cooperative teaching arrangements between parents, commercial learning centers, and subject-specific tutors. Many young teenagers routinely take junior college or university courses. Others participate in the revival of apprenticing.

The homeschooling boom has not gone unnoticed by educational entrepreneurs. Homeschooling conferences attract huge numbers of vendors catering to the hundreds (and in some cases, thousands) of families attending. Traditional curriculum vendors have repackaged their wares specifically for the homeschooling market. Homeschooling magazines and newsletters flourish, increasing in number. Organizations providing paid support (curriculum counseling, bureaucratic paperwork assistance, legal support) for homeschooling families continue to spring up.

Supplementing these numerous commercial ventures and, in most cases, preceding them, are a multitude of local support groups that arose spontaneously to help meet the needs of new and existing homeschooling families. Much of the power of the homeschooling movement comes from these groups, through which families gather to meet the social and academic needs of their children. Those voluntary groups create the environment for low-cost or no-cost academic solutions, such as:

- cooperative teaching, which leverages the existing talents and interests of parents;
- information sharing among parents about what works and what doesn't for different learning styles;
- renting community rooms (or homes) for group activities and classes;
- hiring professional teachers by the hour (for example, our science teacher is paid $75 an hour, which breaks down to $5 a child); and
- field trips for hands-on learning.

Homeschooling support groups also provide all of the social activities found in traditional schools. One group, All Ways Learning in San Jose, is typical of the depth of activities provided by voluntary support groups once a critical mass of families is involved. The group meets twice weekly, once at a local park and once in a rented community room. Volunteer families organize the monthly newsletter, yearbook, yearly "school" pictures, monthly "PTA" meetings (aka "Parents' Night Out"), holiday parties, dances, and

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choir. In addition, a homeschooling sports league in the area sponsors baseball, basketball, and soccer for several hundred homeschooled children.

Homeschooling, with its varied commercial and volunteer ventures, is a microcosm of what a true free market in education could look like—parents and children working together, mixing and matching, tailoring the educational style to what works best for them; families spending their educational dollars as they choose, with educational entrepreneurs creating a wide-ranging marketplace of goods and services. It's not just mom and the kids around the kitchen table. It's a new educational model.

If You Can't Beat 'Em, Join 'Em

Stakeholders in government schools have a vested interest in strangling this nascent free market in education. Early efforts to stamp out homeschooling were fought in the courts, and while homeschoolers have for the most part been successful in that arena, the threat of legal prosecution is still a favorite weapon of intimidation wielded against homeschooling families. However, for the most part, the days when homeschoolers were considered outlaws are behind us.

Homeschooling victories in the legal system forced opponents to use different means to control homeschooling. Moving to the legislative arena, some states imposed mandatory oversight by local school district officials, requiring approval of curricula and quarterly evaluation. Other states imposed mandatory testing, with a child's failure resulting in a return to a government school. (Note, however, the lack of a reciprocal clause forcing government-schooled students who fail the test to be homeschooled.)

Those coercive attempts to control homeschooling actually pale in significance compared to the more subtle and dangerous tactic some states use to recapture homeschooling families: government homeschooling programs. Once few in number, those programs are now widespread in states that allow them.

Early programs in California offered homeschoolers a straightforward $1,000 bribe to participate. To collect the money, homeschoolers merely had to submit receipts to the district for any educational activities or materials. It was an economic win-win situation, as the district retained the remaining $3,000 in per-pupil funding from the state.

Programs changed over time as the state gradually imposed more restrictions on homeschoolers. At first, the restrictions took the form of decreasing the amount available for reimbursement and sharply limiting reimbursable items. At the same time, more curriculum resources and teachers were made available. Now, instead of having the freedom to spend money from the state on the educational materials and experiences of their own choosing, families are only reimbursed for the same consumable materials (pencils, crayons) already offered by the district.

However, despite these restrictions, the programs still provide significant economic incentives for both homeschoolers and school districts. For homeschooling families, they get access to a professional teacher, all the district resources, and extracurricular activities like sports and band—all of it "free." With incentives like these, it's not surprising that many homeschoolers have rushed back to the same government system they once fled and, in many cases, are demanding their "rights" to these activities. This phenomenon is common enough that it's attracted national media attention.[4]

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For school districts, the advantages are even greater. Districts receive full pupil funding for only spending an hour a week with a student.[5] This is an enormous profit margin over what can be obtained with full-time students, a virtual cash cow for districts. Districts respond to this incentive the way any profit-seeking enterprise would: aggressive recruiting of new customers (even stealing from other districts),[6] advertising their programs, conducting workshops on homeschooling,[7] and expanding into new markets (for example, high school homeschooling programs).[8]

Crowding Out Private Educational Alternatives

The damage done to the independent homeschooling movement extends beyond offering financial and other resources to families to seduce them into government programs. The spirit of volunteerism that suffuses homeschooling support groups and makes possible low-cost cooperative learning opportunities also is undermined by government competition. Parents who offer their time and talents voluntarily through support groups have been actively recruited by government homeschooling programs with employment opportunities at $20 an hour.

It's a simple economic calculation for most parents to make and just one more step in the seduction of homeschoolers. The end result is a siphoning off of the creative leadership of the private homeschooling sector. Inevitably, there are some who follow their leaders back into the system.

Homeschooling businesses are also undercut. Private independent study programs (ISP) typically provide a range of services to homeschooling families, including curriculum counseling, specialized testing, record-keeping, and other educational resources. It is increasingly difficult for them to compete against equivalent services offered for "free" by the state.

The burgeoning charter school movement provides one more example of the state's crowding out of private educational enterprises. Similar to government homeschooling programs, new charter schools in California aggressively recruit homeschoolers with mass-marketing tactics: placing ads in homeschooling publications, cold-calling during the dinner hour, and e-mail spamming (junk-mail solicitations via e-mail). Motivated by the same low overhead and high per-pupil funding for homeschoolers, their entrepreneurship is admirable, but their goal of recapturing homeschooling families for a government-funded and -chartered program is not.

The most aggressive charter schools use another traditional business technique to achieve rapid growth—merger and acquisition. Backed by state funds, they can afford to make generous buyout offers to private ISPs. ISP owners in California charge between $100 and $400 per student. Charter schools can hire owners as "administrators" and pay them $1,000 per student, while still retaining 75 percent of the state funding for charter school "overhead." Everybody wins economically here, as the homeschooling families no longer incur the cost of the private ISP.

Slamming the Door on an Educational Free Market

Having established a viable government alternative to the private sector and independent homeschooling, the government's next step is logical—outlaw or regulate independent homeschooling out of existence. Not only is it logical, it follows historical precedent.

This is the same pattern used in the 1800s to virtually eliminate the large private-education system that predominated at the time. First, fund it with compulsory taxes, though attendance is voluntary. Once private sector competition is driven largely out of the market, make attendance compulsory as well.[9] The same process is underway with homeschooling today and is at various stages in different states. With guaranteed funding from taxpayers, the government system can afford to spend whatever it takes to undercut private homeschooling alternatives.

Not coincidentally, the National Education Association (NEA) has already formulated the game plan for state control of all homeschooling. For the last several years during

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their biannual conventions, the NEA has passed formal homeschooling resolutions demanding that:

- Teachers of home-instruction programs meet state certification requirements;
- State or local permission be required annually for home study;
- Home study be monitored by local school administrative personnel knowledgeable about excellence in the teaching-learning environment;
- Students participate in state or locally mandated testing programs in suitable settings and in other assessments conducted by the school district;
- Students have the option of attending public school for part-time instruction. They should be counted in the average daily membership without proration (in other words, full per-pupil funding with minimal attendance and overhead).[10]

With the infrastructure already in place to support homeschooling within the government system, it would take only a small legislative tweak to make these programs compulsory. As mentioned earlier, some states have already implemented some of these regulations—homeschoolers in Pennsylvania and Hawaii, for example, are subject to annual approval and monitoring by government school officials.

Other states aren't waiting for legislative tweaks and are trying to outlaw independent homeschooling directly. At one time, the California Department of Education maintained a benign and even marginally helpful attitude toward homeschooling. Today, with no legislative changes to the education codes, the California DOE informs prospective homeschoolers that the only legal way to teach their children at home is through their government programs or with a credentialed teacher. That is misinformation at best, as even a casual reading of the pertinent education codes demonstrates.[11]

Enforcing those policies is all too easy with our existing truancy laws; it is exacerbated with the new wave of daytime curfew laws. In California, truancy laws are enforced by Student Attendance Review Boards (SARBs). SARB proceedings are arbitrary, with little resemblance to due process. Recently armed by the California legislature with the power to subpoena parents, at least one SARB had parents arrested for failure to appear (they were not homeschooling parents).[12]

While SARB actions against homeschooling families are still few in California, the majority of children stopped by police because of daytime curfew ordinances are predominantly homeschoolers. Those ordinances typically allow police officers to write citations forcing parents to appear before a court and pay stiff fines for repeated violations. The combination of SARBs with subpoena powers and daytime curfew ordinances will have the proverbial "chilling effect" on independent homeschoolers, forcing them underground or into the government system.

A Clarion Call for Homeschooling Independence

While educational statists will never be able to put the homeschooling genie back in the bottle, they've made great strides in coaxing him to do their bidding. Many homeschooling activists recognize the dangers and are sounding a clarion call to resist the seductions of state-funded "freebies" and the inevitable strings attached to them.

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The 1996 National Homeschooling Roundtable Conference, titled "Freedom in Education," held multiple workshops debating the merits and dangers of government-funded homeschooling programs. Organizations like the California Homeschool Network have already taken a stand. Their recently issued Declaration of Homeschool Independence reads in part:

> The Board of Trustees of the California Homeschool Network holds freedom to be essential to the fulfillment of homeschooling's promise. We therefore dedicate our resources and services toward the protection and promotion of homeschooling independent of government support and intervention. This policy represents a deliberated response to the encroachments on family independence and the security of homeschooling rights posed by the growth of government funded and controlled home-based school programs.

Educational efforts like these are needed to avoid following the same path of private schooling in the 1800s, which ceded 90 percent of the educational market to the government. Homeschooling families need to understand that the real cost of the "free" homeschooling resources provided by the government is, ultimately and inevitably, their freedom. □

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2. Dr. Brian Ray, "A Nationwide Study of Home Education: Family Characteristics, Legal Matters, and Student Achievement" (National Home Education Research Institute, 1990). The homeschooling families in the study averaged $488 per pupil per year.

3. Peter Brimelow and Leslie Spencer, "Comeuppance," *Forbes*, February 13, 1995, p. 121. "Inflation-adjusted per-pupil spending reached $5,971 in 1993."

4. Dana Hawkins, "Homeschool Battles: Clashes Grow as Some in the Movement Seek Access to Public Schools," *U.S. News and World Report*, February 12, 1996.

5. Linda Parrish, "Home-school Programs Are Lucrative for Districts," *Seattle Times*, October 1, 1996.

6. Mark Sabbatini, "State Cites Violations in Home-Study Program," *Los Angeles Times*, June 24, 1995, p. B-7.

7. Kelly David, "Workshop to Provide Home-Schooling Tips," *Los Angeles Times*, June 3, 1996, p. B-3.

8. "Home School Program to Be Expanded," *San Diego Union-Tribune*, May 17, 1996, p. B-2.

9. E.G. West, *Education and the State* (Indianapolis: Liberty Fund, 1994), Chapter 10: "The Rise and Fall of Nineteenth-Century Private Schools for the Masses."

10. NEA Board of Directors, "Policy Statement on Home Study," 1984. While these excerpts are from the 1984 resolutions, the substance of them has been re-approved at subsequent conventions.

11. Jackie Orsi, *Our Rights, Our Laws, Our Children* (Vineburg, Calif.: California Homeschool Network, 1996).

12. William L. Seymour, "Parents Get Schooled in Embarrassment; Attendance Up," *Fresno Bee*, November 6, 1995, p. B1.

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Michigan: Where Privatization Is Working

Twenty years after Margaret Thatcher became the first major national leader to make "privatization" a policy of government, I still hear opponents claiming "there's no proof yet that it works." They should pay a visit to my state, Michigan, for an eye-opening, paradigm-shifting experience.

Privatization is a term with which readers of *The Freeman* are quite familiar. It is simply the transfer of a service or an asset from the public sector to the private sector, and it can be accomplished wholly or partially by employing any number of proven methods. The idea is to curtail or replace the ponderous and expensive apparatus of government monopoly with the time-honored features of free markets: competition, choice, accountability, and consumer sovereignty.

The reasons to privatize are numerous, though saving money and improving quality are among the most commonly cited. In my belief, the best reason is not that privatization results in better government, or even better services. If done properly and fully, privatization transfers the control of scarce resources from collective action (i.e., government) to individual action. By shrinking the sphere of coercive monopoly in our lives and enlarging the realm of voluntary relationships, privatization is a crucial strategy in the enhancement and preservation of individual liberty. That's far more important to me than saving a couple of bucks a month on my garbage pickup bill, and I hope it is to you as well.

For those diehard skeptics, Michigan provides a cornucopia of privatization achievements—at both the state and local levels of government. It's a remarkable track record, made all the more so because Michigan was once considered one of the toughest union-dominated nuts to crack. Public-employee unions are usually staunch opponents of opening their "business" up to competition and customer choice.

Michigan is home to one of the biggest and most successful sales of a state-owned enterprise in the history of the country. In 1995, the state sold its "Accident Fund"—the largest provider of workers' compensation insurance in Michigan—to the highest bidder, yielding proceeds of $291 million. Prior to the sale, the Fund was a civil service bureaucracy whose budget had to be approved by legislators, with predictable results: political manipulation of rates and staffing, reduced competition in the industry, and a growing exodus of private providers from the state.

Today, not one insurance policy for workers' compensation is sold by the state of Michigan. A flourishing, competitive market involving many private companies and institutions takes care of it all.

Through privatization, Michigan state government has shed numerous other functions and activities in recent years, including a natural resources magazine, health care and food service within its prisons, liquor distribution, and many aspects of the annual state fair. But

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it is at the local level of government—county, city, and school—where a genuine privatization revolution is underway. All across Michigan, city council people, county commissioners, township supervisors, and school board members are putting the concept to work at a pace that's hard to keep up with.

Traverse City doesn't pick up garbage any more; private firms under contract with individual citizens and businesses get the job done. At least three-quarters of the state's municipalities have now privatized garbage pickup by one method or another.

Ann Arbor turned over its parking structures to a private firm, which made them cleaner, brighter, and safer than they ever were in the past.

By contracting with a private company, Alpena transformed its problem-ridden wastewater-treatment plant into a model facility, saving the city a quarter million dollars a year. Wexford County privatized its emergency medical service in 1994. Not only did this result in an improvement in the quality of care and a reduction in costly administrative burdens, it cut the cost of the service by about 50 percent—saving the taxpayers over $300,000 in the first year alone.

A for-profit education company is now providing new opportunities for students in the public schools it manages in Flint and Mount Clemens. In Kalamazoo and Battle Creek, a California-based firm is making downtown parking more customer-friendly by managing meters, ramps, and lots. Gypsy moths are now suppressed in Midland County not by the county itself, but by a private firm owned by a former county employee. The tiny town of McBain is earning widespread acclaim for success in privatizing its economic development efforts.

After residents complained that the city's police officers didn't show up for their shifts and rarely stepped out of their cars, the security of several public-housing neighborhoods in Flint was contracted to a private company. It was the first time in the state's history that a city refunded a portion of its citizens' taxes so that a private firm could replace local law-enforcement personnel.

Michigan's justice system increasingly is relying on the private sector for solutions to youth crime. The state's first privately owned, maximum-security juvenile facility, the Wolverine Center, opened its doors in Saginaw County last September. Saginaw County Chief Probate Judge Faye M. Harrison says, "Dealing with the private sector can provide some flexibility. If a child has a particular special need, we can seek a program that fits it rather than trying to plug someone into the one program the county or state finances."

For 20 years, Coleman Young was mayor of Detroit and a defender of its unionized bureaucracy. As a private citizen, he saw efficiencies through privatization that he never sought to implement when he was in office. Last July, he proposed that the city contract with a company he co-owns to change the oil in Detroit's 500 police cars. The city, with its own oil-changing garages, has spent $1 million annually for this simple task; Young said he could do it for a mere $300,000, a whopping 70 percent savings. (Mr. Young died on November 29, 1997.)

The examples cited above represent a cross-section of hundreds of successful privatizations in Michigan. There have been failures along the way too, but they've taught important lessons about how to do it right without slowing the overall statewide trend.

To strengthen our liberties, government must shrink and more of the services people desire must come through private, voluntary, and competitive provision. Privatization is a key strategy toward that end, and in Michigan we're proving to the rest of the country that it can indeed be made to work. □

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THE FREEMAN
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How Cities Put the Brakes on Taxicabs

by Sam Staley

The lifeblood of any economy is its people. Human progress ultimately springs from the inspiration of people who transform their ideas into goods and services that others can use every day.

That is why entrepreneurship is critical to the success and growth of a community and economy. Not surprisingly, economic growth is driven by the expansion of small businesses.[1] Entrepreneurs invest in new ventures on a hunch that they are tapping into some unmet demand.[2] Guided by expectations of profits, entrepreneurs experiment with and test new ideas. If they hit the mark, their fledgling businesses grow and prosper.

This lesson is important for cities. Prosperous cities are havens for trade and investment. The earliest cities were markets for agricultural goods. Cities facilitated economic expansion by providing a mechanism for developing new markets beyond the closed, narrow market of the village or the nearby farmers.[3] Historically, the rise of great civilizations has been predicated on trade. Some cultures, such as the ancient Phoenicians, depended on trade for their livelihood. The rise of Amsterdam and the great cities of Italy was credited in large part to their position as centers for trade and commerce.[4]

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Oftentimes, though, in the latter stages of a city's development, the entrepreneurial energy that transforms green fields and villages into thriving urban centers is taken for granted. Bureaucracies and special interests encroach on small businesses and residents, sapping the creative energy from local entrepreneurs and pushing their investments and growth toward more hospitable environments. In the late twentieth century, suburban and rural areas have provided the economic climate best suited to small business development. As a result, more than two-thirds of all new jobs in the 1980s and 1990s have emerged in the suburbs.[5]

Taxicabs and Entrepreneurship

The extent to which cities erect obstacles to entrepreneurship can be quite numbing. Take, for example, the case of taxicabs.

Taxicabs are, potentially, one of the purest forms of entrepreneurship. The business can be established with a car, a driver, and someone with the savvy and gumption to recognize an unfulfilled need in the market.

Sitting in her apartment, Lisa, an aspiring college student, mulls over ways to pay her tuition at the local university. She visits some of the local grilles and sees an unmet need: a part-time cab service that works with local restaurants to transport customers home during evening and weekend hours. She could earn money at those times, and spend the day studying and attending classes.

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Local regulations have made the realities of starting up a taxicab business far more complicated and costly. These regulations add tens of thousands of dollars to the normal start-up costs of new companies.

So our young entrepreneur simply uses her own car, ensures it is in safe working order, buys insurance (another $3,000 for cabbies), builds a client base, and she's off. Right?

Not quite. Local regulations have made the realities of starting up a taxicab business far more complicated and costly. These regulations add tens of thousands of dollars to the normal start-up costs of new companies.

Licensing and Limitations

First, Lisa needs a license to operate the cab. Or, more accurately, she needs licenses for her budding enterprise. In other words, before she can begin her company, local government officials need to approve and register her business.

At least three licenses are often required in the taxi business: one for the driver, one for the car, and another for the company. While driver's licenses may range from just $8 to more than $50, fees for cars and companies often range from $25 to $250 per car. In some cities, Lisa may be faced with almost $600 in licensing fees just to put one car on the road.

This, of course, presumes that Lisa is allowed to establish her company. Many cities simply prohibit new cab companies from starting up. Some, such as Columbus, Ohio, and New York City, have moratoria on issuing new taxicab licenses. This has created a lucrative black market for existing licenses, ranging from $5,000 in Columbus to more than $60,000 in New York City. So if Lisa were starting up in Columbus, she would pay more than the official cost of $75.

Even when there is no moratorium on new cabs, cities commonly require proof that the taxi company is needed. Some cities require public hearings every time someone wants to start a new company or add a car to the fleet. Presumably, this is to ensure the market is not flooded with fly-by-night companies. But the process makes it almost impossible for new companies to begin legally. This requirement is particularly onerous for small companies. Often, they are established on an entrepreneurial hunch, not on the basis of sophisticated market analysis.

In Denver, for example, start-up entrepreneurs had to prove their company would serve an underserved market and show that the existing companies were incapable of providing the service. That is an almost impossible standard since entrepreneurs respond to market opportunities, not to whether existing companies have the capacity (or inclination) to provide the product. This requirement alone was largely responsible for keeping new cab companies out of the Denver market from 1947 to 1995.[6] Local regulations that presume that new companies do not serve the public interest have become one of the greatest obstacles to entrepreneurial development in the taxicab industry.

Multiple Regulations Discourage Entrepreneurs

In a comprehensive analysis of taxicab ordinances in eight Ohio cities, the Buckeye Institute found that cities tailor their regulatory system in unique ways, each with a decidedly anti-entrepreneurial effect.

• Toledo imposes a cap on the number of cabs and prohibits advertising. It requires a public hearing for each new license and cab company, proof that new companies would serve the "public interest," and financial reports from the companies. The city also sets taxi fares by ordinance.

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• Cleveland also has a cap on taxicabs. It refuses to license additional cabs older than three years, prohibits companies with fewer than 25 cars from operating, and requires a separate dispatching office and two-way radios in every cab. (Cell phones are not good enough.)

• Dayton keeps entrepreneurs at bay by requiring companies to have separate dispatching and business offices and prohibiting part-time operators. Consequently, any new start-up company will need enough cars and personnel to cover 24-hour shifts, seven days a week. The company will also have to hire full-time office staff to dispatch calls even when modern technology would allow car dispatching through cell phones.

The sum total of these regulations can be substantial. The Buckeye Institute estimated that the regulatory burden of local regulations on a newly established taxicab company amounted to almost $67,000. This estimate excluded the initial costs of a car and insurance.

Importantly, licensing fees were a relatively small portion of the total regulatory burden of local ordinances, less than one percent in Dayton, for example. The bulk of the burden resulted from nonfinancial regulations, which require companies to provide service during specific hours and in specific locations. More than three-quarters of the regulatory burden in Dayton resulted from those requirements.

Public Interest Not Served

The regulations do not serve the public interest. An examination of taxicab fares in eight Ohio cities found that cities that allowed the market to determine rates had generally lower fares:

Taxicab Fares for 1-mile Trip in 8 Large Ohio Cities

Market-determined rates	$2.59
City-set maximum rates	$2.85
Rates set by ordinance	$3.10

Source: Taxicab Regulations in Ohio's Largest Cities (Dayton, Ohio: The Buckeye Institute for Public Policy Solutions, October 1996), p. 19.

Moreover, research on cities that have deregulated their cab industries found that, on average, the number of cabs increased by 23 percent.[7] Within the first three months of deregulation in Indianapolis, 32 companies started up, three-quarters of which were owned by minorities and women.[8] Cincinnati experienced a 49 percent increase in the number of licenses issued in the wake of its deregulation.[9] (The deregulation consisted of removing many of the onerous criteria on which approval of licenses had been based.) This suggests a substantial opportunity to serve consumers in those cities.

Protecting Existing Companies

Clearly, taxicab regulations have purposes other than raising money. If that were their sole purpose, licenses and fees would be much higher. As noted, licenses on the black market often cost substantially more than the official price set by the local government.

The real effect of the laws is to shut out entrepreneurs, limit competition, and protect existing companies. Indeed, one of the principal arguments against deregulating local taxicab markets is that revenues for existing drivers and companies will fall.[10]

That limiting competition is the chief objective is also evident by looking at the nature of the regulations imposed on taxicab companies. Regulations rarely focus on outcomes or performance. They almost always focus on the inputs or characteristics of the industry irrespective of health and safety considerations. In fact, few ordinances provide any mechanism for addressing service-quality concerns once a license has been issued. Prohibitions on part-time cab operations, which make starting up new companies very difficult, may be justified in the name of protecting consumers. Yet, full-time companies may also poorly serve customers, particularly when they are protected from competition. It is revealing that ordinances rarely provide ways to restructure or close unsound companies. Of course, as with all other private business activity, the market provides swift discipline for the wayward company.

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Unfettered markets are effective at regulating businesses through the profit-and-loss system. But regulations that hamper entrepreneurship and competition compromise the market's ability to discipline poorly performing companies. They also limit the economic potential for cities, since new companies cannot form and expand.

Limits to Growth

When cities erect insurmountable barriers to entrepreneurship, the consequences for economic growth are significant. If entrepreneurs cannot get their ideas past the regulators, they certainly will not be able to build and expand companies. The city's long-term economic health is jeopardized. Regulations, such as taxicab ordinances, that limit entry and competition inevitably stifle the entrepreneurship and market innovation necessary to build neighborhoods, particularly in older cities. Until city administrations recognize the perverse effects of local regulation, the prospects for encouraging revitalization and sustained growth are limited. □

1. David Birch, *Job Creation in America* (New York: Free Press, 1987).
2. See Israel Kirzner, *Competition and Entrepreneurship* (Chicago: University of Chicago Press, 1973).
3. An excellent examination of this role for cities can be found in Jane Jacobs, *The Economy of Cities* (New York: Random House, 1969).
4. Joel Kotkin, *Back to the Renaissance?* (Malibu: Calif.: Pepperdine University/Pacific Research Institute for Public Policy, 1997).
5. An excellent summary of these trends can be found in ibid. See also Joel Garreau, *Edge City: Life on the New Frontier* (New York: Doubleday, 1991).
6. In 1995, under pressure from entrepreneurs and litigation by the Institute for Justice, a Washington, D.C.-based public-interest law firm, Denver deregulated its cab industry. See Dwight Filley, "Taken for a Ride: How the Taxi Cartel and the State are Disserving Denver's Economy," Issue Paper #6-93 (Golden, Colo.: Independence Institute, April 1993), and "Challenging Denver's Taxicab Monopoly," Litigation Backgrounder, Institute for Justice, Washington, D.C., n.d., n.p.
7. Price Waterhouse, *Analysis of Taxicab Deregulation and Regulation* (Kensington, Md.: International Taxicab Foundation, 1993), p. 11. This report, however, is generally critical of deregulation.
8. Ordinance 76 Update, Regulated Competition in the Indianapolis Ground Transportation Marketplace, Economic Development Committee, January 19, 1995. This ordinance deregulated the Indianapolis cab industry.
9. "Taxicab Regulation in Ohio's Largest Cities" (Dayton, Ohio: The Buckeye Institute for Public Policy Solutions, October 1996), p. 26.
10. Roger F. Teal, "Taxicab Regulatory Change in San Diego," *Taxicab Management*, Fall 1986, p. 32.

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The Persistence of Poverty in India: Culture or System?

by Parth J. Shah

The recent death of Mother Teresa drew the world's attention to the dire poverty of Calcutta and of India in general. Mother Teresa ministered to the poorest of a very poor country where asceticism, antimaterialism, and fatalism are integral to the majority religion, Hinduism. For those who follow these beliefs, any effort toward changing the material state of the poor is futile. To them wealth, not poverty, is surprising.

Will India's poor ever prosper? A focus on the dominant religion and culture portends a rather pessimistic future. Those who generally discount the influence of religion and culture in modern societies maintain that India's poverty is the result of its political and economic system. Representative democracy with a largely illiterate population has allowed operators of the political system to amass wealth for themselves. The reign of Nehruvian socialism, more popularly known as the "license-permit-quota raj," has left little room for private initiative and enterprise. The Hindu rate of growth has been the outcome. That would be the outcome, it is argued, under such a system in any culture.

What is responsible for India's poverty—the culture or the politico-economic system? (Religion in a broader sense is assumed to define the culture, and so the terms are used interchangeably.) Those working to alleviate India's poverty need to answer the question. They need to decide where to focus their energies. But first some elaboration on culture, economics, and politics.

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India's Culture

In the dominant Hindu religion, the purpose of life is to work toward achieving *Moksha*—relief from the cycle of birth and death. One of the ways of accomplishing the goal is to renounce the material world—*Sansar*—and become a *Sanyasi*. One goes away into the wilderness and spends one's life praying, which can take several forms; the most common are solitary meditation and continual singing of devotional hymns and songs (*Bhajans*).

Since most mortals are unable to renounce the material world, the second suggested way is to live in the *Sansar* by strictly following the prescribed guidelines. For this purpose, the human lifespan is divided into four periods (generally by age), each with its own rules and goals. Adherence to those rules and goals is called *Dharma*. It is obviously impossible to write down rules to cover all possible situations in life, so the lives of characters in the Hindu epics "Ramayana" and "Mahabharata" are offered as exemplars. Simply stated, *Dharma* does not consist of amassing material wealth. One can acquire material things and engage in human relationships, but the fewer the better. As much time as possible should be spent praying; ultimately, along with fulfilling

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one's *Dharma* in the material world, praying is the route to *Moksha*. In the Indian culture, asceticism and antimaterialism are not just preferred but glorified.

Gita, the counsel of Lord Krishna, is another religious text that is widely read and followed. Two of the important ideas in *Gita* are detachment and *Karma*. Detachment is an attitude that one should strive to achieve in life. Indifference to everything is the ideal state of mind. Even when one lives in the *Sansar*, one should not be attached to anything in it—neither to material things nor to other human beings. It's fine if one has material conveniences, and love for family and friends, but it is equally acceptable if one does not. One should be utterly and completely indifferent to all things and all beings. The concept of *Karma* is closely tied with the idea of detachment. It suggests that whoever one is and whatever one has are the result of past lives and past actions. One's current status is not only justified but is deemed hardly alterable. The idea of *Karma* indirectly provides support for India's caste system. (The caste system has two important aspects: the association of professions with particular castes and the view of the people in lower castes as untouchables. The second aspect is losing its influence but the first still survives.)

Birth into a given caste is determined by *Karma*. One is expected to accept the caste and try to fulfill the role assigned to it, that is, do one's *Dharma*. Understandably, fatalism is ingrained in the people of India.

The epic "Ramayana" describes the kingdom of Lord Rama. During his reign there was abundance, happiness, and contentment. He was the ideal ruler, and his rule is called *Ramrajya*. (That is what the Hindu fundamentalist political parties promise when they come to power.) Since the time of Rama people have been awaiting another *Ramrajya*. It has yet to arrive, but the idea that only a good ruler can bring abundance and happiness is deeply embedded in the Indian psyche. In modern times, government is expected to be that benevolent ruler. This wishful dependence on the government for their deliverance is described as *Mai-Bap Sarkar* (government as the mother and the father). People feel helpless until the government acts or prods them to act. Many ascribe the relative lack of private initiative and enterprise to the widespread belief in the *Mai-Bap Sarkar*. Since *Ramrajya* was in India, only the Indian government is expected to fulfill this role. Emigrants from India—from the land of Rama—are therefore generally more industrious and self-reliant.

The Indian culture's asceticism, antimaterialism, and fatalism and the *Mai-Bap-Sarkar* view provide little encouragement for the pursuit of material wealth. They actually actively discourage it. Indians are therefore said to be "satisfiers" and not "maximizers" and thus immune to economic incentives and logic. But isn't the economic logic universal?

India's Political and Economic System

Those who believe in the universality of economic logic and incentives maintain that India's poverty is due to its political and economic system. Among the British colonies that gained independence in this century, India is the only one to have sustained democracy. But India is not immune to the paradox of democracy. Democracy is the least coercive form of government, but its workings expand government's coercive powers. The dynamics of democracy, coupled with the adoption of the "Nehruvian model of growth," left no area of Indian life safe from the government's visible foot. The government did not abolish private property but micromanaged each and every aspect of production, distribution, and consumption through its now famous license-permit-quota system. The system conferred unlimited power on politicians and bureaucrats. The leaders plundered the country in the guise of developing it. India put an end to the British raj only to usher in the *Neta-Babu* raj (politician-bureaucrat raj).

Here's an example of the *Neta-Babu* raj. Cars were declared luxury goods and until recently only two companies were allowed to produce them—in the numbers dictated by the government. They sold the same model for some 40 years, and one could buy it in any color as long as it was white. Justifications for

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government controls always become self-fulfilling; cars remained a luxury good until recently. One more example of the fatuity of Indian rule: government experts toured several countries to "study" the design and construction of roads. Following the common practice in those countries, they decided to put wider medians lush with grass, shrubs, and trees on highways. Suddenly highways began to suffer serious traffic jams. The abundance of the median had been discovered by cows. The traffic meandered through the hungry cows stomping toward the median and the thirsty ones swaying toward the curbs, where there were water canals. Food and water were at the highway—where else would cows go? This was socialist economic planning with Indian characteristics.

As Henry Hazlitt's fable prophesied, *Time Will Run Back.* Dwindling foreign exchange reserves and a crumbling economy forced India to liberalize. And liberalize she did. The auto market was opened up. At first, foreign companies could not establish their own manufacturing units, but were allowed to form joint ventures with Indian companies. The memory of the British raj still haunts India; she is wary of foreigners. Initially, foreign companies were allowed to own a 25 percent stake in joint ventures; control had to remain, it was argued, in the hands of Indian partners. Then the ceiling was raised to 40 percent. Sometime later, after much wrangling, it went up to 49 percent. It stayed there for a while, precariously balancing India's sovereignty and the demands of her economy. India then lost its "sovereignty"; the ceiling was finally raised to 51 percent. Some new models and colors came in. Foreign companies are now allowed to roam the auto market freely—as long as they get permission from the appropriate government ministries. The ministries habitually remind people of their promise to make speedy decisions; all major investment decisions are on the fast track. If they actually expedited requests, would they need to repeatedly promise to do exactly that? The memory of the British raj keeps the *Neta-Babu* raj alive and well.

Some months back—don't worry about when I'm writing this, nothing gets dated in this ancient civilization—the commerce minister called a press conference and proudly announced the list of items that were on OGL (Open General License). Import of these items no longer required permission from the government. Did the list include information-technology products to move India into the 21st century and to allow its software engineers to compete globally? Not exactly. The list included cosmetics and stockings. Prior to liberalization, someone actually had to get a license to import L'Oréal and L'eggs products. Now with free access to cosmetics and stockings, at least Indian women are allowed to compete with their sisters abroad. This is liberalization with Indian characteristics.

Given such controls and especially the mindset of the *Neta-Babu* raj, the persistence of India's poverty, the argument goes, does not need any other explanation. But the question does remain.

The Culture or the System?

It is impossible to establish any theological, psychological, sociological, or economic theory to determine whether culture or the system is the more dominant influence. It is hard to say how much the culture or the system determines the day-to-day activities of the people—rulers and ruled. Both the culture and the system are dynamic. They continuously evolve and interact. Both are products of human action; the system is influenced by the culture of the people who form it, but the system also constrains the kind of culture that evolves. The easiest answer, of course, is that they are interdependent. They jointly govern the material and spiritual state of the people. As in Alfred Marshall's economics, it is not supply *or* demand alone that determines the price; they are two blades of the same scissors.

But if I had to choose, I would pick the system over the culture. I cannot offer any theoretical arguments, but I can suggest some empirical and evolutionary ones. Concern with the afterlife and thereby at least implicit aspersion on earthly life have been common to almost all major religions of the world. So has been the emphasis on asceticism and antimaterialism. Recall the New Testament's "eye

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of a needle." No major religion has proffered the pursuit of material wealth as the purpose of human life. Devotion to one's religion and culture, even a fervent one, has been common too. The *Mayflower* was filled with devout religious dissenters. The Pilgrims lived in communes, and subsequent socialist experiments were conducted on American soil for a long time. None of these characteristics stopped the United States from becoming the most materially abundant society on earth, indeed, the epitome of materialism and consumerism. Fortunately, the early socialist thinking was discarded. The American system allows individuals to pursue their own ends. In many ways, the system has succeeded despite its early religion.

In light of the American story, why would we expect antimaterialism to prevent any other society from achieving material prosperity as long as it has a system in which individuals are free to govern their lives as they deem right? Of course, in the West it was a long process. But in the information age, it should take only years what for others took decades or centuries. With the right system, no society could be expected to stay materially poor for long.

This evolution has taken place not only in Christian countries of the West. Buddhist countries, like Thailand and Indonesia, have increased their consumption dramatically just in the last decade. East Asia's Confucianism has been no hindrance to enjoying Coke and Levis. The East Asian cultures have shown a remarkable capacity to adapt from antimaterialism to materialism. Why should Islam or Hinduism be any less adaptable?

The evolution in the West and parts of the East suggests that once economic energies are unshackled, religion or culture cannot stand in the way for long. Once political and economic systems are reformed, material abundance is bound to follow. The precise nature and composition of material progress would depend on particularities of the people in all their varied dimensions of life. Certainly we do not want only Coke and Levis.

Antimaterialism seems fundamentally at odds with human nature. It may seem that Hindus and Muslims are an exception. Their lack of attention to the body is apparently the result of not having discovered ways to attend to it. They, like everyone else, begin to focus on the body when given ideas and products, as amply demonstrated in boutiques and discotheques from Dhaka to Delhi. Religious antimaterialism seems to breed only hypocrisy and guilt. It will become a casualty of the emerging global city.

The process of evolution is, in a sense, a move toward perfection, an opportunity to fulfill our highest potential as both material and spiritual beings. Most humans seem to pay attention first to the body and then to the mind and the soul. Providing for the body enables the pursuit of the mind and the soul. This is not to suggest that economic and civil liberties should be sacrificed in order to provide for the body. As is clear from the historical evidence, liberty, de facto if not de jure, is required to make material progress possible. Moreover, the pursuit of the mind and the soul itself requires material things. Ultimately, of course, both culture and the politico-economic system should dovetail to enable the evolutionary process to go forward.

Perhaps there is some deeper meaning after all to liberalizing cosmetics and stockings before computers and compact discs. Indian politicians and bureaucrats—*Netas* and *Babus*—must really be onto something profound. This is ratiocination with Indian characteristics. □

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THE FREEMAN
IDEAS ON LIBERTY

The Myth of Compulsory Union Membership

by Charles W. Baird

Organized labor wants workers to think they can be forced to join a union as a condition of continued employment. The union-employer agreements that accomplish that are called "union security" clauses in collective bargaining pacts.

For example, Weyerhaeuser Paper Co. and the United Paperworkers International Union (UPIU) have a union security clause that requires all maintenance and production employees to "become and remain members of the union in good standing" as a condition of continued employment. It also requires new employees to do the same after a 30-day probationary period. It seems clear: a worker who doesn't join the union will not be employed by Weyerhaeuser. But, as Roland Buzenius proved in a Sixth Federal Circuit Court of Appeals decision on September 8, 1997, that is not what the clause means. If it did mean that, it would be illegal.

It is well known that in the 21 right-to-work states all forms of union security clauses are banned. In those states workers can be forced to have a union (selected by majority vote) represent them, but they cannot be forced to join or pay dues. In the 29 other states—California, for example—union security clauses are permitted, and they are usually worded like the Weyerhaeuser clause. Unions routinely try to use those clauses to dupe workers into thinking that full membership in good standing can be compelled.

Word games have always been a large part of labor-relations law. Section 8(a)3 of the National Labor Relations Act (NLRA) says that it is "an unfair labor practice for an employer by discrimination in regard to hire or tenure of employment . . . to encourage or discourage membership in any labor organization." By itself, that would make union security clauses illegal. However, Section 8(a)3 goes on to say, "provided, that nothing in this Act . . . shall preclude an employer from making an agreement with a labor organization . . . to require as a condition of employment membership therein." In other words, employers cannot encourage membership in a union; they can only compel it. Such is the stuff of laws designed to serve special interests.

The proviso of Section 8(a)3 would seem to make union security clauses that require membership legal. Not so, says the U.S. Supreme Court. In the 1963 case *NLRB v. General Motors Corp.*, the Court said that required membership is limited to its "financial core." That means that the only thing a union can require of the workers it represents is the payment of union dues and initiation fees. No other obligations of membership in good standing can be imposed. In the 1985 case *Pattern Makers' League v. NLRB*, the Court said that any union member in good standing could resign membership at any time for any purpose without giving any notice and

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become a dues-paying represented worker. Finally, in the 1988 case *Communication Workers of America v. Beck*, the Court said that a worker could be compelled to pay only that portion of union dues and initiation fees used for collective bargaining, contract administration, and grievance procedures. No worker can be compelled to pay dues for such things as politics, lobbying, and union organizing. On average, unions spend only 25 percent of their dues on the three activities for which they may collect forced dues.

So "membership in good standing," as that term is usually interpreted, cannot be compelled in any of the 50 states. All that can be required in the 29 states that have not banned all forms of union security is that workers represented by a union pay partial dues. Any union member paying full dues can resign at will and become a partial-dues, financial-core represented worker. Obviously, unions do not want workers to know this.

This brings us back to Weyerhaeuser and Roland Buzenius, who tried to resign his membership in UPIU. The union ignored his resignation, continued to collect full dues from his paycheck, sent him a new membership card, and said if he resigned he would forfeit his job. National Right to Work Legal Defense Foundation attorneys represented Buzenius against UPIU before the National Labor Relations Board. The NLRB acknowledged Buzenius's rights under the court decisions and ordered the union to stop collecting full dues from him and imposing any other membership requirements on him. It also required the union to post a notice telling all Weyerhaeuser maintenance and production employees that they have the same rights.

However, the NLRB allowed the wording of the union security clause that requires "membership in good standing" to stand. It said that the Supreme Court has never addressed the issue of permissible wording, so any wording agreed to by the employer and the union and consistent with Section 8(a)3, is permissible. Buzenius took the wording issue to the Sixth Circuit Court of Appeals, which on September 8 ruled that the Weyerhaeuser union security clause "leads employees to believe that they must become full-fledged union members as a condition of employment," and since that is "directly at odds with Supreme Court precedent," it must be disallowed.

The Sixth Circuit includes only Kentucky, Michigan, Ohio, and Tennessee. (The issue is moot in Tennessee because it is a right-to-work state.) Until the Supreme Court decides the wording issue, or until Congress codifies the three Supreme Court decisions in amendments to the NLRA, misleading union security clauses will still be allowed in all other non-right-to-work states. But the basic issues are already decided. No American worker can legally be forced to become or remain a union member in good standing in any state.

The trouble is that the Department of Labor refuses to enforce the Supreme Court decisions and allows the AFL-CIO to keep workers in the dark concerning those decisions. This means that workers must file individual cases with the NLRB and the courts to secure their rights.

The National Right to Work Legal Defense Foundation offers free legal representation to workers whose unions refuse to let them resign and become partial-dues, financial-core represented workers. It can be reached on the Internet at www.nrtw.org. An amendment to the NLRA currently under consideration in Congress would extend right-to-work protections to workers in every state. If that were to become law there could be no compulsory union dues for any purpose in any state. □

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THE FREEMAN
IDEAS ON LIBERTY

On Giving Back

by George C. Leef

To celebrate the centennial of its founding, the big accounting firm KPMG Peat Marwick made September 22, 1997, "KPMG World of Spirit Day." The firm's 130 offices were closed that day so that, as the letter announcing this event stated, "over 20,000 KPMG partners and employees will spend the day serving our local communities." The letter went on to say that Peat Marwickians are "excited about our opportunity to give back to the communities that have enabled us to endure for 100 years."

I don't mind if a lot of accountants take a day off. Perhaps whatever "community service" projects they have planned made those 130 communities just a bit nicer. Perhaps KPMG got some good PR out of the event, although I find it hard to believe that many businesses will say, "KPMG people cleaned up the park—let's take our accounting business to them." If KPMG's management has concluded that a day of community service is more valuable than a day of accountancy, it's their call.

What bothers me about "World of Spirit Day" is that its justification—the supposed need to "give back" to the community—is an implicit attack on one of the most fundamental propositions of capitalism, namely that trade creates a mutuality of benefit, leaving both trading partners better off. The "need to give back" rhetoric unwittingly reinforces the mistaken view that businesses profit at the expense of the people they serve.

Capitalism rewards people who figure out how to make products or provide services that consumers value more than the resources used (evidenced by their willingness to pay). Voluntary transactions that produce profits for businesses like KPMG also yield benefits to their customers. Profitable businesses no more have an obligation to "give something back" to "the community" than "the community" has an obligation to give something back to them—or to unprofitable businesses, for that matter.

Successful companies and individuals have already served "the community," or to shed this useless abstraction, *people* in the community with whom they have voluntarily dealt. The wealth of Michael Jordan, Warren Buffett, KPMG's partners, and other successful individuals was all *earned*. It was earned by selling goods and services that people willingly paid for. If for any reason such individuals desire to give up some of their time or money to assist others, they are certainly free to do so. But they shouldn't do so on the specious grounds that they are obligated to "give something back."

It has become almost *de rigueur* for the successful to utter the phrase "giving back to the community" prior to any act of philanthropy. Not surprisingly, groups that consume rather than produce wealth have picked up on this. Recently a consortium of community

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activist groups demanded that Bankers Trust donate to them an amount equal to the pay of its top five executives—$72.9 million last year. In their letter, the activist groups stated that "this $72.9 million compensation package occurred at the expense of the bank's mandate to serve our flocks."

To its credit, Bankers Trust did not cave in to this moral blackmail, but no doubt there are many people who'd say, "Right on!" to the activists' demand. When "community activists" come knocking at KPMG's door, will they be satisfied with the answer, "We picked up trash and painted over graffiti on our 'World of Spirit Day'"? I don't think that will be nearly enough "giving back."

Subverting the Market Order

"World of Spirit Day" and similar events may be good public relations (although I doubt it), but the rhetoric is subversive of private property and the market order. There are a great many Americans who expressly or implicitly believe the Marxist idea that profits come at the expense of workers and consumers and are morally no better than theft. Every time a successful business implies that it owes something to "the community" to atone for its profitability, it makes it harder for those of us who advocate private property and free markets to counteract that pernicious belief.

Put yourself in the position of a student who has been taught in government-run schools. In grade school you are taught that greedy businesses threaten the planet's fragile environment. In junior high you are taught that greedy business owners underpay and mistreat their workers. In high school you are taught that greedy businesses routinely shirk their "social responsibilities." Throughout this "education," you have heard little or nothing about entrepreneurship, risk, management, voluntary exchange, and consumer sovereignty.

Moreover, many of the television shows and movies you have seen depict businessmen as malevolent and sometimes even criminal. Your view of business is decidedly cynical if not overtly hostile.

Now you hear that a businessman is donating a lot of money to build, let us say, a museum. He publicly declares that he is making this donation because he feels a sense of obligation to "give something back" to the community. Does this cause you to rethink your position and see business in a favorable light? Or does it reinforce your belief that business profits are ill-gotten? After all, the millionaire or billionaire owner has just said that he feels that he must give something back. The "giving back" language implies that he has been in possession of something that wasn't really his.

It is more likely, I believe, that the words and action will be interpreted as those of someone with a guilty conscience, an attempt to atone for past wrongs. The readings and discussions on the "social responsibilities of business" will come back to mind and the obvious question will be, "Is this enough?" If the businessman has given back $1 million, isn't it likely that he is just trying to get off cheap? With so many "unmet needs" in the world, why stop with a measly million for a museum?

Thus does careless talk, intended to project a warm and fuzzy image of a company or individual businessman, accomplish the opposite. And even if it doesn't do that, it does no good either. We need to educate people on the moral and economic virtues of capitalism, not just portray businesses as plush toys.

Protecting the "Soil of Liberty"

In *Business as a Calling*, Michael Novak argued that businesses have a moral obligation to "protect the political soil of liberty." "Businesses," he continues, "are plants that do not grow in just any soil; they depend on specific sorts of political environments. People in business therefore have a responsibility to be watchful over their political society, even as a matter of survival."

I concur. People in business should act so as to fend off, as much as possible, the encroachments of state power and to disabuse people of socialistic misconceptions about business and capitalism. Unfortunately, the message of "World of Spirit Day" is one that leads to further erosion of the soil of liberty. We don't need any more of that. □

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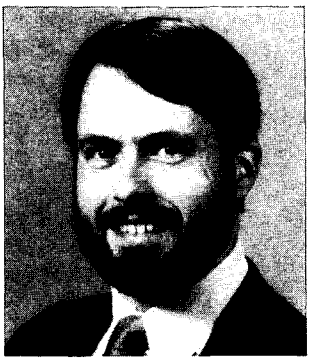

Ax Business Welfare and Privatize Social Security

The president and Congress have promised a balanced budget by 2002, but a recent poll found that just 17 percent of Americans believe the budget will then be balanced, the same percentage who think space aliens are now living on earth. And people's skepticism is warranted. Congress actually added $220 billion in new outlays through 2002, spending virtually the entire financial windfall from a growing economy. There is no cushion if the economy turns downward. Moreover, balance will be achieved only if the budget cuts promised in 2001 and beyond—three-fourths of the supposed total savings—actually occur. In effect, present legislators voted to have future lawmakers make all of the tough decisions.

But the real budget crisis occurs when the unfunded Medicare and Social Security bills come due. Before the recent budget compromise, Medicare, which provides health care for the elderly, was expected to go broke in three years, by early 2001. The new legislation supposedly saves $115 billion through 2002, but much of that is fiscal sleight of hand. Even if the numbers were honest, however, the "reforms" would only put off the day of reckoning a few years, to 2008 at most. Then comes the financial tsunami.

Even worse, Social Security will run out of money by 2012, and possibly as early as 2006, if the economy worsens (the so-called trust fund is empty, filled with government IOUs, not cash). By 2015 the system will be spending $57 billion more than it is collecting; the revenue shortfall will be $232 billion by 2020. The deficits then quickly accumulate—an astounding $160 trillion through the year 2075.

At the same time, the system, due to years of rapid tax hikes, is providing a dismal return to beneficiaries. Some retirees are now collecting less than they and their employers put in. Their number will grow in coming years as Social Security's return steadily worsens for younger workers.

The system is unsustainable because it is a public Ponzi scheme, under which current workers pay current retirees. Social Security seemed to work for years because 30 workers initially supported every retiree and more than 40 percent of potential beneficiaries died before collecting their first check. But when the Baby Boom generation begins to retire early in the next century there will be only two workers supporting every retiree, who will be living longer than ever. To maintain current benefit levels, warns the Social Security System's Board of Trustees, would require payroll tax rates of 30 to 40 percent.

Half steps—some combination of tax hikes and benefit cuts—are no answer. Most would make the financial return even worse for current taxpayers. None would make the system sound. Several would generate almost as much political resistance as would privatization. All would merely postpone the crisis, cheating workers and retirees along the way.

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In short, Social Security cannot be fixed. The only way out is to follow the Chilean model of switching to a private retirement system, where workers invest their own money for their own retirement, rather than turn it over to the government to pay current retirees. Such a system would not be difficult to implement in America: in essence, workers could invest their (and their employers') FICA tax payments in IRAs. Social Security payments would diminish as fewer and fewer people (current retirees and those now close to retirement) relied on the system.

Most public officials privately admit the need for radical reform of Social Security and other entitlements, but publicly oppose any change that might risk their careers. Also of concern to even some advocates of privatization is the cost of the transition. For Washington to pay current benefits as workers were diverting their Social Security taxes into private retirement accounts would expand the deficit by an average of $86 billion annually (the number is sensitive to the underlying economic assumptions) over the next 16 years, after which privatization would generate net positive budget impacts, according to Peter Ferrara of Americans for Tax Reform. Thus, privatization would require significant tax hikes or additional borrowing, neither of which is desirable, or real budget cuts, which are desirable, but not attractive to a Congress that has been increasing outlays.

The answer is to find the right budget cuts: business subsidies. Congress could fund the transition to a private retirement system by killing one of the least justifiable and least popular expenditures of the federal government.

There is another reason to focus on corporate welfare. The greatest beneficiaries of Social Security privatization would be workers, who would enjoy a wealthier and more secure future. But business, too, would profit. Economist Martin Feldstein estimates the economic gain of privatization to be $10 to $20 trillion. (In contrast, the present value of the unfunded Social Security liability today stands at $9 trillion.) That means benefits not just for investment companies handling retirement portfolios. The higher rate of return on capital, growing capital stock, and larger national income that would result would benefit virtually every firm in America.

Many firms today live off the taxpayer. The 100 most egregious federal corporate welfare programs account for some $65 billion annually. Although Congress made modest cuts in business subsidies in 1995, it has upped outlays in succeeding years.

Ever wasteful are agriculture programs, which consume some $15 billion annually. Money goes to subsidize crop research, food production and exports, and land conservation. In 1995 Congress substantially hiked expenditures for the Market Access Program, which underwrites advertising for Campbell Soup foods, Dole bananas, Gallo wine, Mars candies, and Sunkist oranges overseas. Last year federal crop insurance was a big winner.

The Commerce Department also exists primarily to subsidize favored industries. Last year the House Appropriations Committee approved $361 million—more than requested by the Clinton administration—for the Economic Development Administration, long a fount of business pork. The Small Business Administration, which provides taxpayer largesse to smaller firms, received a significant budget boost for 1997. Independent agencies like the Export-Import Bank and Overseas Private Investment Corporation continue to enrich the largest corporations, like Anheuser-Busch, Boeing, McDonald's, and Westinghouse.

Business also benefits from the Energy Department's $6 billion worth of research and development activities and other subsidies, as well as big budget programs at the Interior and Transportation Departments. Another $15 billion worth of corporate subsidies, benefiting major computer makers, among others, are buried in the Defense Department. And there's much more.

Killing these and other similar programs obviously won't be easy. But despite the fearsome political reputation of some business groups, none of these programs has much popular support. Americans may be a generous people, but they aren't clamoring for lawmakers to use their money to enrich the Fortune 500. After all, these subsidies, observe budget analysts Dean Stansel and Stephen

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NOTES FROM FEE

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Judges versus Majorities versus Peaceful People

By the time Ronald Reagan was first elected President, conservatives had grown intensely concerned about "judicial activism." After nearly thirty years of the likes of Earl Warren and William Brennan attempting from the bench to re-engineer society in a leftist image, conservatives were understandably angry. A premier goal for many conservatives became filling the federal bench with judges who would respect the decisions of ordinary people rather than displace these decisions with the preferences of the arrogant elite.

The Right's insistence that judges respect the decisions of ordinary people came by 1980 to be couched as a demand that judges defer in almost all circumstances to democratic outcomes.

After all, isn't democracy a means of enabling The People to govern themselves as they deem best? In conservatives' eyes, people who support a judiciary that regularly strikes down or ignores legislative enactments are elites who (unjustifiably) distrust ordinary people to make wise choices.

Conservatives fittingly decry the arrogance of those who ask courts to override people's decisions whenever these do not conform to the ideals of insolent busybodies. But conservatives too uncritically equate respect for majoritarian outcomes with respect for the decisions of ordinary people. Judicial restraint *is* appropriate when the decisions at issue before the courts are private and non-political. The case for judicial restraint, however, is more problematic when the decisions in question are majoritarian electoral outcomes. A decision made in a voting booth differs greatly from a private, non-political decision. The same person who is careful and discerning when making private choices is too often careless and confused when voting. Not all decisions by ordinary folk are alike. Hence, not all decisions deserve the same amount of judicial deference.

Consider two different cases.

Case #1: I own a shopping mall and refuse to lease space to video-game arcades. Perhaps I believe that permitting such arcades in my mall will reduce my profits. Perhaps I have aesthetic objections to video arcades. Whatever my reasons, because the lion's share of the costs and benefits of my decision fall squarely on me, I will make an informed and prudent choice on whether or not to lease space to video arcades.

Arrogant busybodies might allege that I ignore the preferences of people wishing to play video games in my mall.

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Such an allegation would be incorrect. I account for others' preferences when I consider the amount of rent that I'd fetch if I leased space to an arcade. I then compare this amount to whatever it would cost me to permit the operation of an arcade in my mall. As long as the maximum rent any arcade owner is willing to pay to me falls short of the cost to me of leasing to such a merchant, I will refuse to lease space to video arcades.

If a judge rules that I must allow arcades in my mall, then this judge arrogantly substitutes his own preferences for that of ordinary citizens. Not only does this judge overrule *my* judgment, he also overrules the judgment of thousands of other people, including customers and proprietors of other shops, who by their actions in the market inform me that video arcades shouldn't be in my mall. Conservatives and all decent people should abhor such imperious interference by judges with the lives and properties of others.

Case #2: I own no shopping mall, but I and 51% of my fellow townspeople vote to close the video arcade now open in the mall. This collective decision deserves nowhere near the respect owed to the decision of the private mall owner in case #1. Reasonable decisions are made with good cognizance of the attendant costs and benefits. Because no voter is in as good a position as is the mall's owner to determine the full costs and benefits of leasing space to a video arcade, our votes on whether or not an arcade belongs in the mall are not as trustworthy as is the decision of the property owner. Whenever electoral majorities strip others of their rights to act peacefully and to engage in voluntary commerce, the behavior of these majorities is as arrogant and unjustified as was the decision by the judge in case #1 to require that mall owners lease space to video arcades.

Unlike in case #1, a judge striking down the ballot approved by voters in case #2 obstructs nothing deserving the name "will of The People." The majoritarian outcome in case #2 is merely the tallied-up opinions of people almost none of whom has a direct and personal stake in the matter. Also, because not one of these voters expects that his vote will be decisive, no voter invests the effort necessary to cast an informed vote. Each voter merely expresses, free of charge, his opinion on what other people should be allowed to sell and buy.

A more civil means of closing the video arcade is for me and like-minded folks to put our money where our mouths are; namely, pay the mall owner to stop leasing to the arcade. Another civil alternative is for arcade opponents to dissuade others from patronizing arcades. If too few people wish to play video games in arcades, these arcades will disappear peacefully.

Because conservatives sensibly oppose judicial activism as practiced by Earl Warren and Co., they overlook the differences separating private, non-political decisions from collective, political decisions. Each private, non-political decision is typically made by an individual with substantial personal stakes in the outcomes of that choice. Political settings, in contrast, afford strangers a free say in how other people conduct their lives. Political decisions are seldom made only by people who personally bear substantial shares of the costs and benefits of those decisions. Thus, only when judges override private choices are they guilty of the arrogance that conservatives rightly protest.

None of this says that judges should routinely ignore democratic outcomes. Judges, after all, may be just as uninformed and whimsical as are most citizens in voting booths. The question of the proper scope for judicial activism is breathtakingly complex. But conservatives would do better to focus their opposition to judicial activism against that species of activism that substitutes judicial decisions for private, non-political decisions. A judiciary committed chiefly to protecting private people from government interference may, from time to time, unwisely reject democratic outcomes. But such courts—unlike unchecked legislatures—will never threaten people's most sacred and fundamental freedoms.

Donald J. Boudreaux
President

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Moore, "tend to have a Robin-Hood-in-reverse impact: redistributing income from generally middle-income taxpayers to the relatively higher-income owners and shareholders in the companies."

Thus, axing corporate welfare should be a natural for Republicans who claim to support budget frugality and competitive markets, and Democrats who claim to favor the poor and equal opportunity. And if the proceeds were used to help finance the privatization of Social Security, which would spark a financial boom, even those businesses now subsisting on government hand-outs should be willing to yield up their benefits. This, rather than last year's big budget "compromise," would be a truly revolutionary package that could generate bipartisan support.

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THE FREEMAN
IDEAS ON LIBERTY

Liberating the Jury

by Nathan Lapp

When disputes arise over who has the freedom to do what, fundamental principles of fairness, or "right reason," as Roman philosopher Cicero phrased it, must come into play.[1] For this task, the founders recommended trial by jury.

As George Mason stated in his Virginia Declaration of Rights (1776): "In controversies respecting property, and in suits between man and man, the ancient trial by jury is preferable to any other, and ought to be held sacred."[2] Thomas Jefferson endorsed trial by jury as a damper on government, writing in a letter to Thomas Paine in 1789 that he considered trial by jury "the only anchor ever yet imagined by man, by which a government can be held to the principles of its constitution."[3]

Fifteen years after Mason authored the Virginia Declaration of Rights, the U.S. Bill of Right's Seventh Amendment inherited Mason's original theme: ". . . where the value in controversy exceeds twenty dollars, the right of trial by jury shall be preserved. . . ." In other words, if even a seemingly insignificant portion of someone's liberty was disputed—whether by government or private individuals—trial by jury would be mandatory. The jury became a maintenance tool of freedom.

But today our juries are in trouble. In a passion to uphold law and order, America's legal institutions have almost forgotten the jury's role as protector of freedom. The jury is frequently tinkered with in ways that government planners consider progress. Prospective jurors may be graded for religious, philosophical, and personal beliefs. This involves a terribly inefficient selection process that yields juries sanitized to government specification, in lieu of the ancient, randomly chosen jury of peers. Once selected, jury members can be quarantined, gagged, and barred from taking notes or asking questions. Trial judges may suppress critical evidence or even conduct much of the proceedings in the jury's absence.

As an advocate of jury rights and a court watcher, I have observed the treatment of trial jurors. I find it remarkable that in a free country certain citizens not accused of any crime can be ordered about in such a cold, cavalier manner. Like so many vassals, jurors resign their freedoms to the court—with only modest remuneration for their efforts.

Meanwhile, our state, federal, and administrative tribunals operate in a fashion that precludes all but a trifle of criminal cases even to be tried by jury. This is the form of due process that many Americans, especially judicial system insiders, seem to feel comfortable with.

Hard Times for Juries

I believe there is reasonable doubt whether our jury system, thus regimented, can fulfill the purpose for which it was intended. In 1973, Supreme Court Justice William Doug-

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las wrote: "It is indeed common knowledge that the grand jury, having been conceived as a bulwark between the citizen and the Government, is now a tool of the Executive."[4] If the deterioration of the grand jury is any indicator of the subversion of due process in our courts, it stands to reason that our trial jury system is equally dysfunctional.

Perhaps the practice that most frequently undermines jurors is the mandate that they must render a verdict based exclusively on their finding of facts, with no consideration of the integrity of the law or its application. During the charge to the jury, jurors often hear a command of this sort from the bench: "You must take the law as I give it to you whether you agree with it or not. You are the sole judges of the facts, I am the sole Judge of the law."[5]

Vogue as it may be, such instruction delivers a three-dimensional invasion into the province of the jury.

First, to forbid the jury to assess the law adulterates trial by jury as originally instituted. The founders—both in practice and in principles that formed early American governments—expressly endorsed the jury's role as judges of both law and fact. John Adams, in a statement prior to his election as the second president, was not in the least oblique regarding the jury's proper sphere: "It is not only . . . [the juror's] right, but his duty to find the verdict according to his own best understanding, judgement, and conscience, though in direct opposition to the direction of the court."[6]

Second, the prohibition legalizes a double standard of justice. One set of rules exists for jurists, who may exercise veto power by dropping charges, dismissing cases, overruling previous court decisions, or using ordinary discretion in the execution of laws. Another set of rules is laid out for common citizens, the jurors. Hearing identical arguments in a case, the jurors must follow the rules imposed by the court, with no consideration for conscience or justice. Thus, a great chasm divides the ordinary citizen from the people outfitted with badges and gavels.

Third and most important, instructions that tell jurors they have no discretion when it comes to law are untrue and an encroachment upon the people's mind and conscience. To tell the jury that it does not have the right to consider the law in reaching its verdict is to stipulate that it may not mistrust the government. It is also to concede that common-sense appraisal of individual circumstances is not permitted without legislative consent.

Times Have Changed

Consider the dichotomy between contemporary jury instructions and those given during the first jury trial conducted by the Supreme Court of the United States: "But it must be observed that by the same law, which recognizes this reasonable distribution of jurisdiction (Judges as judges of law, jurors as judges of facts), you have, nevertheless, a right to take upon yourselves to judge of both, and to determine the law as well as the fact in controversy."[7]

The function of trial juries was also defined by lexicographer Noah Webster in 1828: "[Petty juries], consisting usually of twelve men, attend courts to try matters of fact in civil causes, and to decide both the law and the fact in criminal prosecutions."[8] Webster's observation solidifies the contention that jury latitude in applying the law was once axiomatic of trials by jury.

Webster did not invent the meaning of trial by jury. Jury power was tested 150 years earlier in England, when jurors refused to return a guilty verdict based on facts in the trial of William Penn. Penn's crime? Allegedly, disturbing the peace by publicly preaching the Quaker religion.

On August 31, 1670, William Penn was arrested and brought before the court at the Old Bailey in London.[9] The jury heard from two constables and a sergeant who testified about Penn's preaching at a time when England's Conventicle Act forbade Quakerism as a form of worship. With all evidence pointing to Penn's defiance of the act, the court charged the jury, coaxing them to deliver a speedy verdict of guilty.

When the jury returned, the foreman announced that they could find Penn guilty

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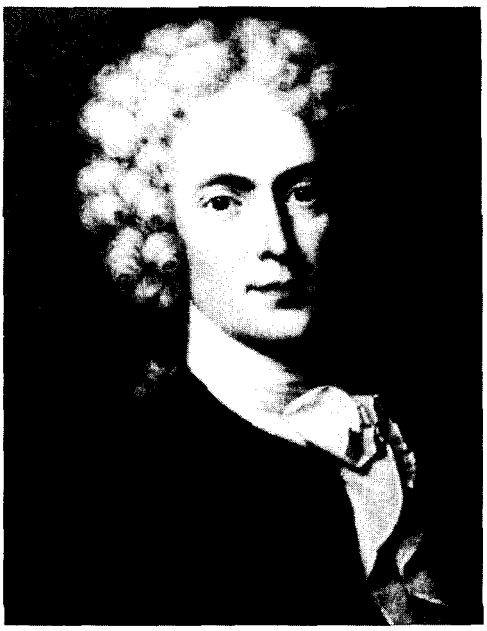
only of preaching, but not of causing tumult or committing any crime. This so incensed the ten presiding judges that one, Sir Samuel Starling, remanded them to the jury room without food, water, or accommodations "until they brought in a lawful verdict." Undaunted, these 12 defiant men repeatedly returned to reiterate their true verdict, while the court each time stipulated a verdict of guilty.[10] The stalemate continued, with the Penn jury incarcerated under most ignominious conditions.

Ten weeks later England's highest court ruled that the penalties and detention imposed upon the jury were illegal. William Penn's acquittal was acknowledged, and the prisoners—Penn's jury—were vindicated. The high court stated that "the court has no power to superimpose its opinion over that of the jury," resulting in an historic and powerful precedent for jury rights.[11]

Nullification Repeatedly Affirmed

The idea that juries have the right to nullify bad laws was underscored on numerous occasions following Penn's acquittal,[12] but perhaps with most historical significance during the 1735 New York case of newspaper publisher John Peter Zenger. Zenger printed a series of articles containing scathing accusations against colonial Governor William Cosby. Although the attorney general failed on several attempts to have Zenger indicted by a grand jury, the governor's council proceeded to carry out a campaign against Zenger on its own, charging him with the crime of seditious libel.[13]

Presiding at Zenger's trial, Chief Justice James Delancey instructed the jury that they should leave matters of law to the court. Defense attorney Andrew Hamilton, citing the case of William Penn, responded that such a rule "in effect renders Juries useless, to say no worse." Hamilton hailed the people's right to remonstrate against the oppressions and evil conduct of their governors by "exposing and opposing arbitrary power." Were this right denied, Hamilton said, "the next step may make them slaves."[14]



Andrew Hamilton (1676–1740) brilliantly defended John Peter Zenger and helped secure freedom of the press.

The jury voted to acquit after brief deliberation.

John Peter Zenger's defiant position not only secured the freedom of press Americans enjoy to this day, it also helped annul the dubious crime of seditious libel. But the unsung heroes in the Zenger case remain the jurors who withstood the dictation of a corrupt government so that justice could prevail.

By trial and error, so to speak, the jury evolved from the status of a subservient entity of the English Crown to the independent body that eighteenth-century jurist William Blackstone would extol as a palladium of liberty.[15] To this day, the state constitutions of Maryland, Indiana, and New York specifically honor jurors as "Judges of Law, as well as of fact."

Nullification Nullified

But today many judges despise the concept that made juries instrumental in freeing this country from the tyranny of witch hunts, slavery, and prohibition. In the case of *Wisconsin v. Leroy Reed*, subject of a 1995 PBS "Frontline" television documentary "Inside the Jury Room," the presiding judge declined to

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instruct jurors concerning their right to weigh the application of a law because "that would be an invitation to anarchy." (The defense counsel was permitted to argue to the jury that it had such a right.) A Rhode Island prosecutor recently told the grand jury in a criminal case: "We do not have jury nullification in Rhode Island."[16]

In a report published in *The Judges' Journal* in 1996, Justice Frederic B. Rodgers of Gilpin County, Colorado, alluded to the danger of "runaway juries," recommending that courts monitor closely for evidence of nullification sentiment.[17] Unrepentant nullifiers, he advised, should be excused from service.

Not all modern judges agree, however. In 1972, Chief Judge David Bazelon of the U.S. Court of Appeals for the District of Columbia acknowledged the jury's right to judge the law: "The pages of history shine on instances of the jury's exercise of its prerogative to disregard uncontradicted evidence and instructions of the judge."[18] He cited the Zenger case and prosecutions of violators of the fugitive slave law. His opinion also quoted eminent legal scholar Roscoe Pound, who said in 1910, "Jury lawlessness is the greatest corrective of law in its actual administration."

Today this is a minority view. But judicial opinion notwithstanding, the right of jury nullification stands timeless and irrevocable. To doubt its existence is to embrace the myth that judges can acquire lordship of the jury's conscience. In fact, no government authority can steal the people's last check on laws haphazardly written—or good laws haphazardly enforced. Judges cannot proclaim a monopoly on the law—without aligning themselves with the likes of the ten judges who prosecuted William Penn. No prosecutor or judge can demand that a verdict be rendered exclusively on the jury's finding of fact, without trivializing the moral reasoning on which the Penn jury and many juries since then have stood firm.

The Flaws of Written Law

As responsible citizens, we ought to think about the consistency of written law. Laws are often byproducts of special-interest, legislative, and judicial power struggles. The desired result of law is to protect society from bullies, or as Thomas Jefferson said, "to restrain men from injuring one another."[19] Unfortunately, every law, regardless of how well it works, can be turned to violate the rights of the people.

Take the case involving one-year-old Andrew Roberts, who was mauled by a wandering dog while waiting with his mother outside a California coffee shop. Andrew's father, after seeing what the dog had done to his son, located the Akita-Chow mix and dispatched him with a baseball bat.[20]

Roberts claimed responsibility, and the state of California tried him for cruelty to animals. Roberts faced a year in prison, but a jury voted to acquit him.

The jury did not deny that it was cruel to bludgeon a dog with a baseball bat. They did not say that there should be no law against cruelty to animals. They did not assume the role of legislator and strike the law from the books. But they concluded that justice would not be served by applying the law to the case at hand. By nullifying the law, the Roberts jury actually helped make the animal cruelty law safer since future prosecutors would exercise caution before they used it to harass another citizen. The moral is that laws can be enforced in ways that the legislature or the citizen or even the judiciary never dreamed of. The jury, then, must ensure that justice is delivered whenever the naked force of written law would unduly threaten someone's freedom.

The late Harry Moss, Sr., a Ventura, California, attorney, once wrote in an essay: "Law, after all is merely a bunch of rules written by the legislature. Justice is based on the relationship between people and is certainly not just a bunch of rules. Anyone who cannot make this distinction should not be sitting on the bench." Moss illustrated that Germany had many fine judges—until Hitler took over and the horrors of the Nazi state became legal. Then, those same fine judges continued to enforce the law without observing that it had become unjust. Moss does not excuse them: "Justice requires that no law can require you to commit an unjust act."[21]

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No Threat to the Rule of Law

Finally, we should remember that jury nullification no more flouts the rule of law than does jurist nullification or legislative repeal. The jury, by virtue of its commission and verdict, is the law. It is to the jury that we turn for help when human vices and weaknesses prevent us from resolving disputes privately. We implore the jury for justice, for mercy, for circumspection. We put lives and freedom in the hands of jurors. Their influence on the evolution of law is unique because they evaluate its impact firsthand, rather than from the comfortable vantage point of the bench, the legislative chamber, academia, or lobbying outfit. They see and touch the law as applied to fellow human beings and, hence, to themselves.

The championing of jury rights does, however, accompany the sobering realization that jury power can be abused. Jury decisions are only as perfect as the cross section of people it comprises, and if the overall character of a citizenry is deficient, a departure from justice in our courtrooms may certainly follow. But the restoration of American juries to the position they had in times past is unlikely to produce a power as dangerous as the one currently vested in the high places of government.

George Mason wrote in his Declaration of Rights that the blessings of liberty "cannot be preserved to any people but by firm adherence to justice, moderation, temperance, frugality, virtue, and by frequent recurrence to fundamental principles."[22] Let the institution of trial by jury once again serve as a vehicle for those principles. Let the men and women to whom we delegate the scales of justice be respected for their indispensable role as guardians of liberty. □

1. See Jim Powell, "Marcus Tullius Cicero, Who Gave Natural Law to the Modern World," *The Freeman*, January 1997, p. 47.
2. Bernard Schwartz, *The Bill of Rights, A Documentary History*, vol. 1 (New York: Chelsea House Publishers, 1971), p. 235.
3. *The Writings of Thomas Jefferson*, vol. 7 (Washington, D.C.: The Thomas Jefferson Memorial Association of the United States, 1903), p. 408.
4. *United States v. Dionisio*.
5. From court transcripts in the criminal case of *The State of New York vs. Homan*, 1986.
6. No author, "The Changing Role of the Jury," *Yale Law Journal*, 74 (December 1964): 173.
7. Alan Scheflin and Jon Van Dyke, "Jury Nullification: Contours of a Controversy," *Law and Contemporary Problems*, 43 (Autumn 1980): 58.
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9. Geoffrey Lehmen, *We the Jury: The Impact of Jurors on Our Basic Freedoms* (Amherst, N.Y.: Prometheus Books, 1997), p. 37.
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THE FREEMAN
IDEAS ON LIBERTY

Lying Government Ads

by Tibor R. Machan

As I was driving to the pharmacy not long ago, I heard a "public service" radio announcement, crafted by some California state agency that wants to frighten kids off cigarette smoking. I did not record what was said, but the substance went like this: "If you try that one cigarette, you are certain to get hooked for life. So don't do it."

The ad is a flat-out, bald-faced lie. It reminded me of another public service ad, aired a few years ago on television, attacking drug abuse—the one with the cracked egg being dropped into a frying pan, while the voice-over says, "This is your brain. This is your brain on drugs." That, too, was a lie.

Not that everyone who took a puff on a cigarette managed to leave it at that—many, indeed, went on to become steady smokers. Nor again is it the case that all folks who tried drugs managed to escape getting hooked on the stuff. But many others fall into the category of "been there, done that, left it behind." The statement "all swans are white" is made false by just one black swan. What if there are hundreds and hundreds of them?

That evening I was visiting some friends, four men and one woman. One of us is under 50, and only one is a regular smoker. Yet each of us had smoked cigarettes on and off during the last 30 years. I myself have always been a sporadic smoker, going without any cigarettes at all for months, then having one or two every other or third day, then none for six months. I recently gave them up altogether. My female friend smoked a few at 14 and then never any again. Another of the guys smoked for a while, then quit cold turkey and has never even tried it again. Same with yet another one who now smokes a cigar occasionally.

What's the Motive?

We discussed these ads, and we couldn't figure out why on earth these kinds of lies had gotten on the air. Surely no one could think kids were so stupid as to fall for them! One suggestion that came out of the discussion made sense to me, although at first I was hesitant to even consider it: these ads have nothing to do with actually trying to persuade kids not to start smoking. The folks who design them know that kids can tell when they are being bamboozled, and these ads clearly fall on deaf ears, given how dishonest they are. Adolescents know well that some folks who try smoking do not continue, that some do it rarely thereafter, and that others pick up the practice good and hard. They also knew a few years back that not all those who smoked pot or even harder drugs fried their brains. They are smart enough to dismiss those public service ads as nonsense, plain and simple. Hardly anyone is fooled or frightened.

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So what gives, then? Well, either those who make the ads are incredibly stupid or just plain wicked. Let us dismiss the former—folks like the ones who set about to concoct these ads are not stupid. So they are, sad to say, probably wicked. That is to say, they want to seem to be doing something, so that their expensive campaign continues to be funded by desperate politicians and supported by even more desperate parents who want something, anything, done to stop kids from smoking.

Yes, this is a cynical hypothesis, but when nothing else works, perhaps cynicism must be given its proper due. Since the cost of the wickedness is probably quite high, it would be good to put a halt to this charade. It teaches kids that many of our lawmakers are frauds who are perfectly willing to perpetrate out-and-out deception just to appear useful. Like the 55 mph speed limit of a few years ago, which even the highway cops couldn't take seriously (and which therefore encouraged people to take law less seriously), the antismoking ads will probably achieve little more than to undermine kids' respect for government.

Which, come to think of it, will be of value, given how misguided governments have become. □

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THE FREEMAN
IDEAS ON LIBERTY

Government and the Market: Chicken or Egg?

by John Hood

One evening not too long ago, I was invited to participate in a debate about state welfare policy. As much of our work at the John Locke Foundation had been directed toward various welfare bills in the state legislature, I welcomed the opportunity to discuss the policy issues involved.

Very quickly, however, I recognized that the audience, congregated at a local art gallery, was mostly on the side of my opponent, who heads a left-wing counterpart to our own organization. I decided that rather than limit our discussion to specific legislative proposals, I would shake things up a bit. I proceeded to explain that welfare was flawed public policy not just because it created dependency, or discouraged family formation, or cost too much money, but because it was wrong. "Using the power of government to take wealth from the person who earned it and give it to someone else isn't charity," I said. "It is stealing."

To judge from the shocked and hostile response from audience members, you would think that I had uttered an expletive or lost control of my gastrointestinal system. Finally, after widespread sputtering and nervous cackling, one woman stood up to challenge what I had said. Essentially, she argued that using taxes for welfare isn't stealing because one's income isn't really deserved. "Society" has a justifiable claim to it, she said, because of its role in making economic gain possible through law, past governmental expenditures, and the accumulated knowledge of generations of ancestors without which modern economic production would be impossible. Welfare, she continued, was just precisely because it transferred wealth from those who benefited most from the "social capital" available to those who, for various reasons, were least able to benefit from it.

Looking to Locke

This issue of whether one can truly lay claim to what one earns in economic exchange is, of course, a frequent topic in debates about public policy and the proper role of government. In my debate I found myself, perhaps not surprisingly, relying on the wisdom of John Locke for guidance about how to answer my interlocutor's question.

Locke (1632–1704) was a pioneer in numerous fields, from epistemology and political philosophy to education and even medicine. (He performed a famous and probably unprecedented liver operation to save the life of a leading politician of his day, the future Earl of Shaftesbury, who became his lifelong political patron.) As a social contract theorist, he was no less a pioneer. Among his innovations was a discussion of how human beings in the state of nature might come to see the need for a government.

For Locke, the state of nature was simply the condition that exists before the advent of a

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civil government. While he and other theorists wrote about the social contract as an historical fact, and even suggested that the state of nature (or at least recently formed social contracts) might be found in primitive America or Africa, they clearly had in mind an analytical device for contrasting their own governments with an ideal.

In the state of nature, Locke wrote, all men were free and equal in the sense that no one individual had any natural right to rule any other. Unlike Thomas Hobbes, for example, Locke did not believe that life in the state of nature was always "nasty, brutish, and short," nor did he agree with Hobbes that in a state of nature all men "are in that condition which is called war" each against the other. Instead, Locke believed that many (if not most) men, even in the state of nature, would be guided by a shared respect for the natural rights of others.

It is worth pausing here for a moment to consider how revolutionary Locke's view of the state of nature was. He didn't suggest that human beings had first lived in a historical Garden of Eden where no one need struggle to eke out an existence or to produce goods and services that others might desire. He was, in other words, not a dreamer who longed for an idyllic past. He viewed the modern day (at least of the mid-to-late-seventeenth century) as clearly superior to prior times, not just in technology or human comforts but in social development.

Nor did he suggest, as Hobbes did, that the state of nature was essentially a nightmare from which human beings might wish to escape so much that they would be willing to surrender virtually all their liberties to a tyrant in order to live in tranquility. Indeed, given the fact that his treatises on government were essentially written to justify the violent overthrow of tyrannical monarchs, Locke's depiction of how and why human beings would enter a social contract is one of reasonable action by reasonable people who saw more to gain from government than would be lost and who could, if necessary, renegotiate their social contract when government ran afoul of its legitimate function.

The Primacy of the Market

"Locke believed that economic activity was present from the beginning of time and is the first and most important of human endeavors," writes Karen Iversen Vaughn in her indispensable book *John Locke: Economist and Social Scientist* (University of Chicago Press). That critical fact about Locke's system of thought helps to clarify the nature of property rights and economic justice. Rather than requiring government for markets to form, Locke argued that economic activity was probably the first kind of social interaction between individuals. (With the advantage of modern sociology, we might correct him to mean social interaction outside the bounds of kinship.)

Locke argued that government became necessary as the breadth and complexity of market interactions grew. Even well-meaning individuals seeking to respect the natural rights of others might not be able to deal with complex issues of property ownership, conflict over claims to "commons" such as air and running water, or appropriate remedies and punishments for transgressors of natural law. For one thing, humans are inherently self-interested and would tend to be prejudiced in their own favor when acting as judges and executors of natural law. Because, Locke wrote, men are "no strict observers of equity and justice" in such conflicts, life in the state of nature, while perhaps not a constant Hobbesian war, would be "very unsafe, very unsecure."

As Vaughn paraphrases Locke, economic growth and the development of economic institutions would "finally become incompatible with the continuation of a state of nature." So men would "turn to forming a civil government to help maintain the economic development which has taken place." Furthermore, Locke makes it clear that in his theory of the creation of government, the chief objective of individuals would be to protect accumulated wealth. He would not have accepted the argument that most or all wealth was, in fact, a creation of governmental or societal action. For him, the generation of wealth preceded and made necessary the existence of govern-

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ment, not vice versa. Therefore, as Vaughn explains it, Locke concluded that "government has no right to pass legislation which will arbitrarily confiscate some people's property and transfer it to others."

Why Welfare Is Wrong

This aspect of Locke's political writings isn't simply an interesting theoretical point. Locke's *Two Treatises of Government* were widely read throughout the eighteenth century and became part of the canon of liberty that guided Jefferson, Madison, and other founders of our republic. It is useful to know, therefore, that Locke did not view one's property as the creation of government or, more vaguely, of "society." Instead, he viewed economic activity as prior to all other social interaction (whether it be taxation, education, or philanthropy), and for that reason its results are not subject to being second-guessed by government.

This is not to deny, of course, that human beings thrive in communities. Certainly one's ability to make a living is related to one's rearing and education, as well as to the safety and security of the community in which one lives. But Locke would not view the self-interested (or the previously compensated) actions of others from which one benefits as creating a legal claim for them on one's income or property. Taxation, as Locke and other liberals traditionally viewed it, was just only to the extent that it was used to pay for the necessary functions of government. Nor did they hesitate to define those functions. Government exists to protect the natural rights that each individual enjoys—to life, liberty, and the fruits of one's labors. Other needs are best sought through the use of other social institutions, be they businesses, churches, charities, or families. As Locke wrote, "Private men's interests ought not thus to be neglected, nor sacrificed to any thing but the manifest advantage of the public," by which he did not mean the private interest of others.

Armed with Locke's insight about the nature of property rights and government, I can confidently restate my initial premise. Welfare programs that use the tax system to provide a constant stream of income to those who don't earn it is, in fact, a form of stealing. Saying so isn't likely to endear yourself to the sort of folks who might attend a debate in a city art gallery, as I discovered, fortunately without too much personal discomfort. Nor does it necessarily suggest what should be done about welfare short term in the world of practical politics, an insight Locke himself, a lifelong practitioner of the political arts in his own time, would certainly have appreciated. (Indeed, while serving on the London Board of Trade, Locke devised his own "welfare reform" plan that focused not so much on immediate abolition as on work requirements and time limits.) But the fact of welfare's fundamental immorality does put its proponents clearly on the defensive, where they certainly belong. Not bad for a 300-year-old liver surgeon, political schemer, and philosophical pioneer. □

"I attribute the little I know to having not been ashamed to ask for information, and to my rule of conversing with all descriptions of men on those topics that form their own peculiar professions and pursuits."

—John Locke

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THE FREEMAN
IDEAS ON LIBERTY

Billy Durant: From Carriages to Cars

by Burton Folsom

Like father, like son," runs the old adage. In the case of Billy Durant, the founder of General Motors, he was like his father and also his grandfather—even though the two men were polar opposites. The Durant story shows how family and entrepreneurship blended to start the largest car company in the world.

Durant's grandfather was Henry Crapo, who came to Michigan in the 1850s and soon helped that state lead the nation in lumber production. Crapo built his lumberyard in Flint, and from that small town he exported top-quality wood as far east as New England. High integrity, Crapo argued, was the key to his success—it also brought the Republicans of Michigan to his door asking for help. With the Civil War raging, Crapo was elected governor of Michigan; when the war ended the popular Crapo was re-elected.

Crapo's fortune and fame, pleasing as they were to him, could not resolve tension in his family. The problem began when Crapo was scouring New England for capital for his lumber business. In Massachusetts, he met William Clark Durant, member of an old New England family, clerk at the Webster National Bank in Boston, and a land agent. Durant's attention turned first to Crapo's bankbook and then to Crapo's daughter Rebecca, whom he courted and married in 1855.

At first, the match seemed an excellent one. William and Rebecca had two children, Rosa and William. Durant did errands for his father-in-law and helped him sell stock in a railroad in Michigan. Crapo seems to have liked Durant, and urged "you and Becky" to visit Flint when possible. Crapo took a special liking to their son, William Crapo Durant, or Willie. In one letter to "Master Willie," Crapo said that he "wants to have a visit from [Willie] *very very* much. Grand Pa knows that 'Willie' is a very fine boy, and he is very proud of him." In another letter, when he was governor of Michigan, Crapo asked four-year-old "Willie [to] be Grand Pa's Private Secretary."

Grand Pa's affection for Willie was soon matched by his concern for his son-in-law. Durant quit his job at the bank, became a stockbroker, and began risking large sums in stocks. "[M]y advice to him," Crapo said, "was to go back into the Bank . . . and be careful about . . . the troubled and uncertain seas of stock speculation." Durant rejected this advice, went broke in the stock market, and began drinking heavily. When he came to Flint looking for a job, Crapo tried to help him but couldn't. Durant, Crapo wrote, "has not mind enough to know what to do, and has apparently given himself up to intoxicating drinks. He can't get by a saloon or a drinking hole, no matter how low, without a 'tip.'" Before a week was out, Crapo noted, "every

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business man in Flint knew that he was a tippler." What was worse, Durant was "so intoxicated here as to have a regular drunken jab with Rebecca at the table before us all."

Governor Crapo prepared for the worst. He changed his will to ensure that Rebecca had control of her share of the inheritance. Even so, Crapo was always concerned with Willie. How would he get by? What kind of work would he do? "The habits of the boy," Crapo said, "are to be formed, both by parental training and parental example, in order to give him proper notions of business." In 1869, when Willie was seven, "Grand Pa" died; his parents divorced soon afterward. Willie's father drifted from place to place and disappeared from his family's life completely. In 1872, at age ten, Willie moved to Flint with his mother to live with his prominent relatives there.

Growing up in Flint, Willie had no father to imitate, but he did have uncles who were lumbermen and bankers. Willie was popular in school, a good socializer, and a smart student. He left high school in his fourth year, however, to learn about business. He worked briefly for Crapo Lumber Company, and then sold patent medicine and fire insurance. Here he found his gift as a salesman. Friends later said he could sell sand to the Arabs and then sell them sieves to sift it. George T. Warren, a local cigar maker, hired Willie experimentally to go on the road and sell cigars. In two days, Willie astonished Warren by selling 22,000 cigars. The experiment was over: three other salesmen were fired and Willie was on salary for $100 a month. "Grand Pa" would have been proud.

The Cart

The destiny of William Durant, however, would not be in cigars or even lumber but in carriages. It all started by accident. In 1886, young Durant, age 24, hitched a ride to the local waterworks from his friend John Alger. Durant had never ridden in a cart like Alger's before—small and durable, two four-feet wheels, two seats wide, and very smooth on bumps and turns even when the horse trotted briskly. The cart was light and graceful with a slatted footboard and a sturdy iron bar to grip for support. When the ride ended, Durant checked out the new cart. The seat was mounted to flexible springs in a way that cushioned the shock and cut the vibrations. The excited Durant, ever the salesman, envisioned himself selling these smooth-riding carts at low prices to middle-class men and women all over the nation.

Quickly Durant asked Alger where he got the cart and how much it cost. The answers led him by train the next day 75 miles away to Coldwater, Michigan, and the factory in which the new cart was created. After some haggling, Durant struck a deal to buy the company, patents and all, for $1,500. But Durant had no ready cash and was $3,500 in debt from having married and bought a home the year before. He had to raise $1,500 in five days or the deal was off.

Less than one day after signing papers in Coldwater, Durant was back home, standing on Saginaw Street, wondering where he would get $2,000: $1,500 for the business and $500 to bring it all to Flint. From the intersection at Saginaw and Kearsley Streets, he could see the Genesee County Savings Bank, founded and run by his Uncle James Willson, and the First National Bank of Flint, recently headed by his Uncle Ferris Hyatt. The son of William Clark Durant had a problem with these family options. "If I make a failure of this venture," he thought, "I will never hear the last of it." He would need his family for capital if his business grew big enough, but right now he had to show them he was more like "Grand Pa" than "Pa."

Billy, as his friends now called him, strolled haltingly into the Citizens Bank of Flint—"not as pretentious as the others," he thought, "but sound as a rock." After a talk with President Richard Whaley, the persuasive Durant, with his customary soft voice, friendly smile, and thorough confidence, walked out with a $2,000 loan for 90 days.

Next, Durant needed a partner, someone to run the new business while he rounded up customers. J. Dallas Dort, the young manager of a local hardware store, rushed to join his friend Durant in the new Flint Road Cart Company. Dort, who bought a half interest for

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$1,000, would supervise the making of carts; Durant would be on the road selling them.

Expanding Markets

From his first day in business, Durant looked for ways to market his cart beyond Flint and even beyond Michigan. When his supplies arrived from Coldwater, he took one of the two finished carts and entered it in the Tri-State Fair in Madison, Wisconsin. "I did not have to do much talking," Durant said modestly. The smooth-riding cart had strong appeal and when the competition was over it had won the blue ribbon. With this award in hand, Durant traveled to Milwaukee and Chicago and lined up jobbers to sell the carts in those cities. He had only one finished cart back in Flint, but he returned home with orders for over 600 vehicles. Furthermore, with charm and finesse, Durant managed to work out the contracts so that he would be paid quickly for carts delivered—his company was too short of cash to have much lag between sale and payment.

"We started out as assemblers with no advantage over our competitors," Durant remarked. "We paid about the same prices for everything we purchased. We realized that we were making no progress and would not unless and until we manufactured practically every important part that we used." *Vertical integration* is the term economists use for this method of controlling production from raw materials to distribution. And Durant used vertical integration to cut costs and keep his company supplied with axles, wheels, varnish, and lumber. He built factories in and around Flint to make these crucial ingredients in assembling carriages. He even experimented with making some parts for carriages on an assembly line.

During the 1890s, the Flint Road Cart Company changed its name to Durant-Dort and began selling carriages all over the United States, and exporting to Canada and Australia as well. It even started a profitable mail-order business to sell its vehicles. Durant, always the imaginative marketer, discovered that easterners preferred their carriages to be painted black, but that midwesterners liked more variety in color, including pinstripes. By 1901, Durant and his friends had transformed $2,000 in start-up capital into a $2 million-a-year business. Durant-Dort had become the largest carriage producer in the nation and probably the world. In 1906, its biggest year, the company employed 1,000 workers, who made about 480 vehicles each day.

COURTESY AUTOMOBILE MANUFACTURERS ASSOCIATION, INC.

William Crapo Durant (1861–1947)

Durant's meteoric rise in the carriage industry occurred at the same time that Michigan's timber resources were rapidly dwindling. His success inspired others to shift from lumber to carriages, and in the 1890s Michigan had about 125 carriage companies servicing the nation. Flint took the name "Vehicle City," and Michigan became a center for expertise and talent in carriage-making. Capital and talent shifted smoothly from Crapo Lumber into Durant-Dort. For example, Durant started the Victoria Vehicle Company in 1894 to make a new line of carriages. He bought the large factory space for the company from his Uncle James Willson, whose Genesee County Savings Bank helped finance Durant. Durant in turn hired Willson's son George to manage the Victoria Company and make it profitable.

Durant, many thought, could sell his carriages to the blind and his farm vehicles by mail order to urban illiterates. Often, however, what he was selling was simply himself and his ability to create a new product. In the

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1890s, for example, Durant started a company in Flint to make bicycles. Many Flint citizens bought stock in the company simply because Durant was heading it. The bicycle craze of the 1890s, however, fizzled and Durant's company ended up losing money. When that happened, he took his profits from Durant-Dort and covered the losses of his friends, who had trusted him enough to invest their money in his bicycle venture.

Then Came the Car

Durant would need help from all his family and friends when he spearheaded the transition in America from carriages to cars. During the 1890s, several mechanics had tinkered with steam, electric, and gas-powered vehicles. None had made a competitive product, however, and most carriage-makers saw no threat to their industry. Durant didn't either for awhile, but in 1904, a group of investors in Flint urged him to take over production of the Buick, a local car with small sales and large debts.

At first, Durant hesitated: cars were smelly, noisy, and dangerous. He had even refused to let his daughter ride in one. But cars also might be the vehicle of the future. He tested a Buick on the streets of Flint and over the potholes of the countryside. He liked the way it ran, and he liked the challenge of building an industry from scratch. Durant would take over Buick if his family and friends supplied him with capital and expertise. Funds immediately poured in from Flint's banks, especially the Crapo family's Genesee County Savings Bank. Other Flint investors, including lumbermen and wagon makers, also anteed up. Durant-Dort supplied factory space, auto parts, and their sales and distribution network. Durant soon had a company capitalized at $500,000 and was in business.

With the money and organization in place, Durant the salesman sprang into action. In 1904, he repeated the success he had had with the road carts 18 years earlier. He entered the Buick in a New York auto show—and came home with orders for 1,108 cars, not bad considering that only 37 Buicks had ever been made. Walter Chrysler, who began his long career in car-making with Buick, spoke for many when he said of Durant, "I cannot hope to find words to express the charm of the man. . . . He could coax a bird right down out of a tree, I think." Durant settled for coaxing outside experts, such as New Yorker Charles Mott, into his Flint organization to make first-rate axles. Durant also made use of local talent, such as Arthur Mason, his plant superintendent. Mason built for Buick an engine twice as powerful (4,000 rpm) as any on the market, and Durant made that fact a key advertising point. By 1908, after four years in the car business, Durant had brought Buick from near bankruptcy to being the best-selling car in America. His company was worth $3.5 million and had the largest auto factory in the world. The carriage king had been transformed into an auto genius.

Durant and his main rival, Henry Ford, were both prescient: they envisioned mass appeal for the car. Ford, however, thought his company should be built around one standard car, his low-priced, no-frills Model T. Durant, from his years in the carriage business, knew that in the long run, if he was to prevail as the auto leader, he needed many different types of vehicles to cater to different incomes and tastes. He therefore scoured the country with the idea of having Buick merge with other companies that could carve out niches in the auto market. He bought Cadillac, for example; its luxury cars suited those who could afford something more expensive than his Buicks. In 1908, Durant founded General Motors, a consolidation of 13 car companies and ten parts-and-accessories manufacturers, with a capitalization of $60 million.

The twentieth century has shown that Durant's vision of different types of cars for different customers was the best way to build the largest car company in America. His problem came when he tried to stitch together the right automakers into his General Motors fabric. His Buicks and Cadillacs sold steadily and profitably; most others did not. "They say I shouldn't have bought Cartercar," Durant said later. "Well, how was anyone to know that Cartercar wasn't going to be the thing? It had the friction drive and no other car had it. . . . And then there's Elmore, with its two-cycle engine. That's the kind they were using

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on motorboats. . . . I was for getting every kind of thing in sight, playing safe all along the line." By 1911, General Motors was losing too much money. In that year, a group of Boston stockholders ousted Durant from leadership at General Motors and ran the company cautiously—making tens of thousands of Buicks and Cadillacs and putting the Cartercars and Elmores in museums of antiquity.

Durant was resilient, however. "We're going to need a car," he told his family and friends in Flint. With their capital and expertise, he started making the Chevrolet, a new economy car that quickly captured a large share of the market. Durant then cleverly traded much of his Chevrolet stock for General Motors stock, and soon held a controlling interest in both companies. In 1916, he triumphantly returned to General Motors for a final five-year term as chief executive officer.

During his second presidency, Durant bought the Fisher Body Company and Frigidaire to add to his Chevrolets, Oldsmobiles, Cadillacs, and Buicks. People such as Charles Kettering, who invented the self-starter, and Alfred Sloan, a brilliant organizer, joined the General Motors team—which by 1920 employed almost 100,000 workers. Like Walter Chrysler, Sloan thought Durant was a genius, often guided by "some intuitive flash of brilliance" that was "at times . . . astoundingly correct."

A Question of Focus

As long as Durant focused on building the best cars for the lowest prices, General Motors grew and prospered. What he lacked in administrative and organizational skills, he made up for with his "intuitive flashes of brilliance" and his salesmanship. For many years, his work habits and integrity were legendary. He displayed the talent, perseverance, and savvy to run one of America's largest corporations.

The problem was that General Motors began to receive less and less of Durant's time while the stock market on Wall Street captured more and more. The gambling bug bit him hard, and a long talk with a broker was his favorite salve. He would postpone key decisions for GM and delay executive meetings while he studied Wall Street and gambled his millions. Walter Chrysler, the vice president in charge of all GM operations, could hardly ever get Durant's attention. "For several days in succession," Chrysler said later, "I waited at his office, but he was so busy he could not take the time to talk with me. It seemed to me he was trying to keep in communication with half the continent; eight or ten telephones were lined up on his desk. . . . 'Durant is buying' was a potent phrase in Wall Street then." In 1920, in the midst of such neglect of duty, Pierre du Pont, chairman of the board, helped oust Durant and work out an arrangement to buy his GM stock.

After that happened, Durant, as was his custom, went again to Flint friends to finance another project: Durant Motors Inc., which would feature the new Durant car. He also produced the Star, which he showcased in New York and for which he persuaded 231,000 people to plunk down cash deposits. His gambling fever, however, was sapping his energy and resources, and Durant Motors never made a serious challenge to Ford or GM. Durant formed a "bull consortium" of stock buyers who plunged into the stock market with billions of dollars. Durant himself had over one billion dollars in the market by 1928, which included accounts with at least 15 brokers and phone bills of $20,000 a week. When the Great Depression hit, Durant's roller-coaster ride crashed. Durant Motors was liquidated; Durant himself declared bankruptcy in 1936.

Some of the entrepreneurial spirit, however, was still in him. Nearing 80 years of age, he opened a restaurant and a bowling alley, hoping to make them into a national chain. The idea of building a chain business was perhaps ahead of its time, and Durant couldn't make it work during the 1940s. He died in 1947, the same year as Henry Ford, at age 85.

What a remarkable blending William Crapo Durant was of his father and grandfather, the gambler and the entrepreneur. If Henry Crapo, 50 years after his death in 1869, could have returned to Michigan, he would have seen his "Willie," the entrepreneur, perched on high as president of General Motors, a grandson who took the family fortune and multiplied it

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beyond recognition. If William Clark Durant, 50 years after his death in 1883, could have returned to Michigan, he would have seen his son, the gambler, close down his car company and lose his fortune in the stock market.

The big winners were neither the Crapos nor the Durants, but the American consumers, who, after the flurry of activity in Flint, had better lumber, more stylish carriages, and a bigger variety of cars to choose from. □

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THE FREEMAN
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Burn Your House—Boost the Economy

by Lawrence Parks

As recently as 50 years ago, classical economists regarded the vitality of the economy as its ability to produce things that people wanted (and presumably would pay for). Today, the economy has been redefined into something called Gross Domestic Product, or GDP. Some are beginning to question the efficacy of the GDP measurement, considering how important it has become for fiscal and social policy. What better way to highlight its failures than to suggest some outlandish ways that help increase the GDP?

Things Kids Can Do: Have kids themselves. Sickly ones who require constant medical attention would be best. Medical expenditures have become almost 14 percent of GDP; we need to stay on the growth curve. And when those kids become teenagers, encourage them to become juvenile delinquents. If they get arrested for some really heinous crime and go to jail for a long time, the economy gets a jolt.

Things You Can Do By Yourself: Get a divorce. Legal costs, two houses, and all the things that go with houses: furniture, kitchen supplies, appliances, are all important components of GDP. Divorces stimulate consumer demand.

Break something around the house, e.g., a window, a dish, the television. Replacing these things helps increase the GDP and creates jobs.

Smash up the car. It will have to be fixed or replaced. The automobile industry employs directly and indirectly one out of every seven workers in the United States and they need the overtime. But, for really great results, burn down the house! Don't worry, insurance will pay for it, and the rebuilding will keep a lot of people busy for at least a while.

Quit your job as a scientist and become a taxicab driver. Research and development is not included in the GDP, but money spent on taxicabs is.

Don't exercise, don't brush your teeth. Overeat, do drugs, smoke, drink, and make yourself terribly sick. See if you can get your family members to do the same. The more you spend on medical care, the higher the GDP.

Hire help to take care of the kids and force your wife to get a job. This gives the economy a double boost because: (1) if your wife takes care of kids and does housework, it is not counted in the GDP because she's not paid, but help hired to do that work is counted in the GDP; and (2) if your wife goes to work outside the home, that counts toward the GDP, too!

Hire a lawyer and sue somebody. (Lawyers' fees are directly added to GDP.)

Things You Can Do with Your Neighbors: Riot and burn the neighborhood.

Lawrence Parks is executive director of the Foundation for the Advancement of Monetary Education. *Adapted from* The Money Review, *November 1997. An earlier version of this article appeared in* The Free Market.

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Rebuilding puts people to work and is very beneficial to the GDP.

Form a gang. Commit crimes with a view to getting caught. The more people in jail, especially folks who would not otherwise have jobs, the better off the economy. Today, building and managing jails has become one of the hot "growth" industries, to say nothing of the security business.

Things Businesses Can Do: Pollute the environment—a giant oil spill would be great! Superfund sites are very desirable for expanding the GDP. Leverage up and build excess real estate, e.g., see-through buildings. They add to the GDP when they go up, but the waste is not subtracted when they are demolished or stand vacant. Similarly, companies can build excess plant capacity (as IBM did in the mid-to-late 1980s to the tune of $30 billion). All of this counts toward GDP. Again, when companies are "downsized," nothing is subtracted from the GDP. It's similar in concept to the "roach motel": GDP counts these things going up, but not going down.

For Best Results, Organize and Get the Government Involved: Lobby your elected representatives to raise taxes and spend more money. Government spending on goods and services adds to the GDP and "creates" jobs.

Start a war. Preferably one far away where no Americans get killed. B-2 bombers, tanks, bullets . . . all count in the GDP. Also, send Stinger missiles to liberation armies in countries around the world, such as Afghanistan. Maybe some of those missiles will be used to knock down airliners. Replacing them helps the economy, and if lawyers get involved, there's a GDP bonus.

Target savers! People who save actually hurt the economy because they don't spend. (Economists call this "The Paradox of Thrift," as if they never heard that contradictions don't exist.) If people spend their savings, then those purchases are added to the GDP. When they don't spend, the economy suffers. What can be done to discourage saving? First, tax the return on savings: a higher capital gains tax would be very helpful. Second, and best, *debase the currency*! By printing up more and more money, we can dilute the value of people's savings (especially their long-term savings, such as their pension funds) surreptitiously stealing their money for politicians to spend and thereby increase the GDP.

Get Mother Nature on Your Side: Hope for a natural disaster: a hurricane, an earthquake, a *big* fire, a flood. Disasters give the GDP a tremendous lift because of all the rebuilding that must take place. □

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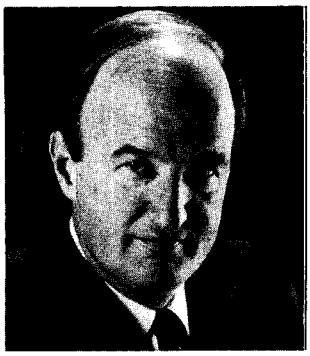

Samuelson's Last Hurrah

"Ours is the 'ruthless economy.' "
—PAUL A. SAMUELSON,
"Valediction," *Economics* (1998)

Paul A. Samuelson, the MIT professor and Nobel laureate who introduced Keynesian economics to millions, has just published the 50th anniversary edition of *Economics* (Irwin/McGraw-Hill, 1998, 16th edition). It is the most popular textbook of any kind ever written: it has sold over 4 million copies and has been translated into 46 languages. The new edition may be his last.

Back to the Future: From Keynes to Adam Smith

As readers of *The Freeman* know, this column has documented the dramatic changes in Samuelson's thinking over the past few years.[1] Along with the rest of the economics mainstream, he has shifted gradually from standard Keynesian analysis to the Classical model of Adam Smith. In the new edition, Samuelson replaces the old anti-saving doctrine known as the "paradox of thrift" with a major section bemoaning the low saving rate in the United States. Deficit spending, a perennial policy recommendation in earlier editions, is now anathema. Today monetary policy dominates fiscal policy. "The growing orientation toward the market," writes Samuelson, "has accompanied widespread desire for smaller government, less regulation, and lower taxes" (p. 735).

The 16th edition is remarkable in many ways. Samuelson and his coauthor, Yale professor William D. Nordhaus, cite free-market economists Gary Becker and Julian Simon. They include a major biographical sketch of Joseph A. Schumpeter, an Austrian-born economist who later became one of Samuelson's valued professors at Harvard. (Schumpeter is best known for his emphasis of the role of the entrepreneur, criticism of the welfare state, and defense of big business.) And Samuelson finally admits that lighthouses were originally privately owned in Great Britain, after long maintaining that they were public goods that the free market could not provide.

Not Enough Friedman

However, his conversion to Classical free-market economics has often been grudging and incomplete. Take his treatment of Milton Friedman, the most influential free-market economist of the twentieth century. While Samuelson's new edition contains biographies of Adam Smith, John Maynard Keynes, Karl

Dr. Skousen is an economist at Rollins College, Department of Economics, Winter Park, Florida 32789, a Forbes *columnist, and editor of* Forecasts & Strategies. *He is also the author of* Economics on Trial *(Irwin, 1993), a review of the top ten textbooks in economics. He is currently working on his own textbook,* Economic Logic.

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Marx, and even his colleague Robert Solow, there's none on Milton Friedman. Friedman cannot be ignored, of course, and he is cited briefly for his contributions to monetarism, the Phillips Curve debate, the natural rate of unemployment hypothesis, and the negative income tax. But nowhere does Samuelson credit him for his most important contribution, for which he won the Nobel Prize: his monumental work (coauthored with Anna J. Schwartz), *A Monetary History of the United States, 1867–1960* (Princeton University Press, 1963). In particular, Friedman demonstrated that government (the Federal Reserve), not free enterprise, caused the Great Depression by permitting the money supply to decline by one-third from 1929 to 1933.

Why did Samuelson deliberately omit Friedman's vital contribution? Because the old Keynesian cannot break with his mentor, Keynes, whom he proclaims as "this century's greatest economist" (p. 734). Samuelson still clings to the old-fashioned Keynesian view that blames the Great Depression on unbridled laissez-faire capitalism. His newest edition gives only the Keynesian interpretation of the 1930s. In his introductory remarks, "A Golden Birthday," he asserts: "The Great Depression of 1929–1935 had finally been licked by forceful programs that threw out the window the old orthodoxies of do-nothing monetary and fiscal policies" (p. xxiv). I'd hardly call tight-money deflation of the Fed, massive tax increases, and Smoot-Hawley tariffs as "do-nothing" policies!

Friedman and other economic historians have demonstrated quite powerfully that inane government policies, not the free workings of the marketplace, are the cause of the debacle of the 1930s.

Classical vs. Keynesian Models: Which Comes First?

Samuelson and Nordhaus have also kept the Keynesian model first and foremost ahead of the Classical model. The Keynesian short-term model of business cycles (aggregate supply and demand or AS-AD) is introduced in Part 5 of *Economics,* and the Classical long-term model of economic growth is in Part 6. I have pointed out that long-term growth is more important than short-term business cycles (see *The Freeman*, August 1997), but Samuelson and Nordhaus are determined to stick with this traditional approach. Gregory Mankiw's new popular textbook, *Economics* (Dryden Press, 1997) does just the opposite—it puts the Classical model first as the "general" theory, and the Keynesian model last as the "special" case. By making this counter-revolutionary change, Mankiw, who considers himself a New Keynesian, has essentially betrayed Keynes.[2] But Samuelson and Nordhaus refuse to do so.

Samuelson ends his 50th anniversary edition on a sour note. He senses that his view of economics has gradually lost out to the new dynamic forces of the global marketplace. He lashes out at the "ruthless" economy characterized by the "relentless pursuit of profits." He complains of the "growing" inequality of incomes and the "harsh" competitive environment where "old-fashioned loyalty to firm or community counts for little." I guess he's never read David Packard's *The HP Way* or noticed the growing number of firms offering profit-sharing and 401(k) plans. He admits there's a "silver lining behind this ruthlessness"—millions of new jobs in the dynamic U.S. economy versus rising unemployment in welfare-statist Europe. But does this new competitiveness generate "good jobs, adequate income, and a safe environment"? He doubts it.

Throughout his career, Samuelson has always praised the glories of the "mixed economy," free-market capitalism with a heavy dose of government interventionism. Now he must be content with what he unenthusiastically labels the "*limited* mixed economy." □

1. See my columns in *The Freeman*, March 1994; October 1995; February 1996; September 1997. See also my article, "The Perseverance of Paul Samuelson's *Economics*," *The Journal of Economic Perspectives* (Spring 1997).

2. See my article, "Keynesianism Defeated," *Wall Street Journal*, editorial page, October 9, 1997.

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BOOKS

Halfway to Anywhere:
Achieving America's Destiny in Space
by G. Harry Stine
M. Evans and Company, Inc. • 1996 • 304 pages • $21.95

Reviewed by Raymond J. Keating

Not all that long ago, if someone mentioned NASA to me, my guilty conscience would scream "Warning, warning, warning," like that robot from the old television show "Lost in Space." You see, when it came to the space program, I kept a scurrilous secret.

As a free-market economist, I naturally have argued for the elimination of a wide range of government measures, from capital gains taxes to welfare programs. As a classical Lutheran, I also possess some understanding that we can all succumb on occasion to the sinfulness of human nature. In fact, the Lutheran in me recognized that the weaknesses of human nature had crept into one tiny area of my economics. My dirty little secret was hidden support for a government space program. I actually liked NASA—that big pork project to the stars. I had given up on my free-market, limited-government philosophy when it came to NASA. Fortunately, I finally repented of my sin, came back to my principles, and gave up on NASA.

In speaking with, reading, and listening to various individuals in the free-market community over the years, I detected that I was not the only one facing this dilemma. For those still suffering from this government space-program affliction, I heartily recommend G. Harry Stine's *Halfway to Anywhere: Achieving America's Destiny in Space*. It offers redemption.

Much of the first two parts of *Halfway to Anywhere*—covering 20 chapters and 200 pages—reads as a fairly straightforward look at recent developments in spaceships and related public policy. Unfortunately, the author even seems to lend a little credence to the misguided notion that government military and space ventures can spur private-sector opportunities. (It actually works the other way around.) However, sprinkled among these early pages, the reader finds a few strands of hope.

For example, although Stine has been involved with analyzing, writing about, and consulting on the space program over the years, he reveals a sound skepticism about NASA. He derides NASA as "a huge nationalized jobs program," and "a high-tech jobs program." Regarding the space shuttle, he writes: "The government owned it. The government operated it. It was historically equivalent to the initial attempts of the United States Post Office to fly the airmail in 1919. Within a year, the Post Office had lost 31 of its 40 pilots."

Most important, he sets straight the mistaken notion that government funding is essential for there to be a space program. Since 1960, NASA and the major aerospace companies have perpetuated the idea that "space travel is so difficult, dangerous, and expensive that only the government can afford it." Stine counters: "Actually, space access was difficult, dangerous, and expensive *because* it was a government monopoly."

The author goes on to mention a few entrepreneurs looking to capitalize in space using private investor dollars rather than tax dollars. Strikingly, he notes that as of 1995, 15 telecommunications companies had plans to launch at least 1,385 satellites before 2005. The author observes that such opportunities have "not gone unnoticed by numerous private firms," with practically all entrepreneurial firms shying away from government funding and support. Stine writes, "If those new companies wanted anything at all from the government, it was for the government to get out of the way." This is the critical message that dominates the final 75 pages of *Halfway to Anywhere* and makes the book well worth reading.

Stine projects dramatically lower costs and considerable profit opportunities for private firms looking to launch what are known as single-stage-to-orbit (SSTO) vehicles, especially compared with bloated, visionless

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NASA. The author notes some of the likely early uses, like satellites, as well as overseas delivery and transportation (35 minutes from Arizona to Australia!). He also writes quite seriously and extensively about manufacturing and tourist opportunities in space.

Stine unequivocally declares, "Private space launch vehicle companies that understand the moneymaking nature of the new spaceships will build them without government assistance, regardless of what NASA does." The author, though, does warn of government's ability to muck up the market, not only through NASA's protection of its bureaucratic turf but also because of current international treaties that could restrict or freeze commercial space activities.

In the end, Stine seems to possess a healthy understanding of the inherent creativity of man when unencumbered by the plodding hand of government. He eloquently states: "Frontiers are opened by people, not governments. They are opened because people seek wealth or the betterment of their lives and those of their children. Frontiersmanship has always demanded taking risks with your life, your fortune, and your sacred honor."

Halfway to Anywhere will make a believer out of those who remain skeptical about the private sector's role in space. Indeed, the economic opportunities are so remarkable that we should soon expect to see space entrepreneurs launching for the heavens, leaving government's space bureaucrats shackled to their desks back on earth. □

Raymond Keating is chief economist for the Small Business Survival Foundation and author of New York by the Numbers: State and City in Perpetual Crisis *(Madison Books, 1997).*

Empire Builders

by Burton W. Folsom, Jr.

Rhodes & Easton • 1998 • 205 pages • $17.95

Reviewed by George C. Leef

Continuing in the spirit of his earlier *The Myth of the Robber Barons*, historian Burton Folsom has written another engaging book about American entrepreneurs. *Empire Builders* is an excellent piece of research and writing, bringing to life a key period of American business history while dispatching socialistic misconceptions about entrepreneurs and the world of business.

Folsom, senior fellow in economic education with the Mackinac Center for Public Policy in Midland, Michigan, concentrates on the lives and contributions of Michigan entrepreneurs. He includes the men you would expect—Henry Ford, William Durant, Will Kellogg—as well as some that are relatively unknown, such as Henry Crapo, timber magnate and later governor who staunchly defended limited government. Each of the seven chapters is rich in detail and valuable lessons.

Did you know that George Washington promoted federal involvement in the fur trade? He did not believe that the fur trade could be carried on by private enterprise, and backed a plan to subsidize government "factories" that would trade goods to the Indians in exchange for furs. That put the government in competition with John Jacob Astor, who followed the dictates of the market, risked his own funds, and operated profitably. The government's factories lost money and needed subsidies year in and year out. Through political machinations, the beneficiaries of the federal subsidies tried to eliminate free-market competitors but failed. Eventually, during Andrew Jackson's presidency, the government's factories were closed down and their assets sold at a big loss. A delightful story.

Shortly after Michigan's statehood in 1837, its "boy governor," 26-year-old Stevens T. Mason, concluded that the state needed a network of canals and railroads planned and financed by the government. The success of the Erie Canal had convinced many Americans that governmental infrastructure investments (as they'd now be called) were the fast track to prosperity. The countervailing idea that huge spending programs undertaken by officials who stood to lose nothing if they were wrong in their judgments did not raise any caution flags. Mason plunged ahead with his dreams.

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The results, as Folsom recounts, were disastrous. The losses were astounding: one canal project managed to squander $350,000 in capital in exchange for revenues of $90 before being abandoned. The government's railroads fared little better. Eventually, Mason saw the light. The state's malinvestments were sold off, and he denounced his own folly. The lesson was not lost on the real losers, the people of the state. The 1850 Michigan Constitution included language that forbade governmental investments of these kinds. (Unfortunately, that language is no longer in the constitution. It's time to put it back.)

Folsom includes an interesting appendix on the treatment of the canal and railroad fiascos in history textbooks. As you might expect, the books from which many students learn about Michigan's history don't grasp the point that the key flaw was in the very idea that politicians could do a better job of directing and optimizing investment than could private investors. Instead, the textbooks pin the blame on extraneous factors.

Another intriguing story is the one about Herbert Dow's battle with foreign (mainly German) chemical cartels in chlorine, bromine, and dyes. Dow's firm had "broken the rules" by selling products in the European market, which by convention was off-limits to Americans. When German industrialists told Dow to cease, he refused, triggering a price war. The Germans wanted to ruin Dow, so they began selling at a loss in the United States, while keeping prices high in "their" market.

They underestimated Dow's ingenuity. He secretly purchased vast quantities of the cheap imports here, and shipped the goods back to Europe to be sold at a handy profit. The cartel members accused one another of cheating on their agreement to keep prices high and output low, never realizing that Dow was wrecking their plan. Finally, the Germans caved in. Predatory pricing, that old antitrust *bête noir*, had utterly failed to do anything except enrich some chemical users and shippers.

I hope that this nicely written and illustrated book finds a wide audience. In particular, I would like to see it get into the hands of young people, because it will teach them a lot about entrepreneurship, the characteristics needed to succeed in business, and the importance of leaving resource allocation to the free market. □

George Leef is president of Patrick Henry Associates: Liberty Consultants in East Lansing, Michigan, and also book review editor of The Freeman.

Not Out of Africa

by Mary Lefkowitz

Basic Books • 1996 • xvii + 222 pages • $24.00

Out of America

by Keith B. Richburg

Basic Books • 1997 • xiv + 257 pages • $24.00

Reviewed by Laurence M. Vance

Has everything good come out of Africa? Can anything bad come out of Africa? The answers to these two questions are the respective subjects of two books that confront head-on the now politically correct teaching of Afrocentrism.

Although the proponents of Afrocentrism may emphasize a wide range of ideas, the agenda of Afrocentrism, according to *Newsweek* magazine, is "to assert the primacy of traditional African civilizations." The two-edged sword of Afrocentrism aggrandizes ancient African civilizations while blaming the white man for the deplorable conditions in Africa today. Radical Afrocentrists like Louis Farrakhan have even stated that "the spread of international AIDS was an attempt by the U.S. government to decimate the population of central Africa."

Both *Not Out of Africa* and *Out of America* have the same publisher and deal with the same broad theme. But the books are extremely different in their approach because of the background and training of their authors. Mary Lefkowitz, who wrote *Not Out of Africa*, is a white woman, a professor in the humanities at Wellesley College. Keith Richburg, the author of *Out of America*, is a black man, a reporter for the *Washington Post*. Lefkowitz writes as a historian; Richburg as an eyewitness.

Lefkowitz, defending the very foundations of Western civilization, specifically appraises the spurious Afrocentrist contention that the

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ancient Greeks stole their ideas from the Egyptians. Her work is heavily documented with the works of ancient authorities such as Plato and Plutarch. Richburg, defending the distinctly American way of life, examines firsthand the dictators and destruction that characterize Africa today. It is thus an intensely personal account of a black man who rejects the label "African-American." Not surprisingly, charges of racism have been hurled at both Lefkowitz and Richburg.

The book by Lefkowitz will especially appeal to those interested in history. After a brief introduction that neatly summarizes the book, Lefkowitz addresses, in four chapters, what she calls the myths of Afrocentrism. In discussing the myths of African origins, Lefkowitz counters claims that Egypt invaded Greece, that Socrates and Cleopatra were black, and that North Africa is to be equated with black Africa.

The next myth Lefkowitz topples is that of the supposed cultural dependency of Greece on Egypt. Demonstrating her familiarity with the works of Herodotus and other ancient Greeks, she proves bogus the claims that the Greek philosophers (including Plato) studied in Egypt.

She also recounts the folly of an assertion that the Greek philosopher Aristotle came to Egypt with Alexander the Great and stole his philosophy from the library at Alexandria. The only problem with this, Lefkowitz points out, is that the library at Alexandria was not even built until after the death of Aristotle. In short, Lefkowitz decimates the Afrocentric notion of history and equates it with the theory that the earth is flat.

Out of America is the story of a black man who concludes that he wants no part of Africa. "Thank God that I am an American" is not only the last phrase of Richburg's prelude, it is the theme that echoes throughout his book. For his courageous stand, Richburg has been branded by the black elites as a traitor to his race. And just what is Richburg's crime? Merely telling the truth about a subject that is taboo among both blacks and whites: Africa.

Richburg lived in Africa as a reporter from 1991 to 1994. From his base in Kenya he covered the civil wars in Somalia and Rwanda and saw the carnage firsthand. But it is not just the war zones in Africa that are destructive. According to Richburg, "Daily living in Africa is also a constant battle to ward off possible disease and infection." Throughout the book he describes the continent in which he traveled: rampant prostitution, venereal disease, AIDS, polygamy, murder, poverty, starvation, brutal dictators, corruption, and death—gruesome death.

In between Richburg's horrific accounts of life and death in Africa, he occasionally takes time out to inject some thoughts on politics and economics. Richburg chastises the self-appointed black leaders in America who call for "immediate democratic reform in South Africa," but who "become defensive, nervous, and inarticulate" when the subject turns to "the lack of democracy and human rights elsewhere in Africa." He points out that for the vast majority of African nations, the end of colonialism has led to "more repression and brutality" than ever existed previously. Richburg contrasts black Africa with Southeast Asia. Although both regions emerged from colonialism at about the same time, Africa languishes while South Korea and Singapore prosper. Only one country in Africa reminded him of home—South Africa.

Given the continued fragile state of race relations in America, it is rewarding to find two books that are willing to ask—and answer—difficult questions about race, culture, and political economy. □

Laurence Vance is an instructor at Pensacola Bible Institute and a freelance writer living in Pensacola, Florida.

Unconventional Wisdoms: The Best of Warren Brookes

edited by Thomas J. Bray

Pacific Research Institute • 1997 • 302 pages • $16.95

Reviewed by Philip R. Murray

Warren Brookes was a nationally syndicated columnist who developed a reputation as a great opponent of statist nonsense

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and a great proponent of sound thinking in science, economics, and politics. In a single pithy column, Brookes could debunk the best-laid plans of government bureaucrats. His untimely death in 1991 deprived us of an advocate of inestimable skill.

Thomas Bray, editorial page editor of *The Detroit News*, for which Brookes wrote, has collected an assortment of Brookes's best columns into *Unconventional Wisdoms*. A welcome book it is. Brookes, Bray says, "always took pains to emphasize that he approached his subject as a fact-gatherer, not as an 'expert.' " He employed salient facts and historical perspective to make his points, not econometrics and abstruse mathematics. Mix that with wit, clarity of expression, and a Bastiat-like instinct for getting at the nub of a problem and you see why he was anathema to statists.

Like Bastiat, Brookes knew that the battle between liberty and statism would persist. That explains Bray's motive for editing the book: "Indeed, one of our primary purposes in publishing this volume is to arm the interested reader with the arguments and factual framework needed to assess the continuing debate over . . . subjects that Warren knew would be a permanent source of debate."

Brookes was among the first journalists to explain the difference between the supply-side and demand-side world views. Demand-siders, he explained, view the world primarily as a zero-sum game. Wealth is tangible and limited; government, moreover, must constantly stoke and "fine tune" the economic engine that produces wealth. They see a need to "correctly" distribute that limited wealth and believe that people can't have both liberty and security. For demand-siders, the latter is the right choice, but of course individuals cannot be entrusted to make such choices.

Supply-siders, on the other hand, maintain that wealth is potentially unlimited since it is ultimately the product of the human mind. They understand that the choice between liberty and security is a false one and know that government interference is certain to gum up the works of our economic engine. Thanks to Warren Brookes's able exposition, many people who would not otherwise have understood this battle between differing world views could see and evaluate them.

Brookes took on popular neo-Malthusians like Jeremy Rifkin and their assumption that we will eventually—rather soon, in fact—run out of energy. From the Second Law of Thermodynamics (usable energy becomes unusable), Rifkin and his cohorts draw the implication that as we use unrenewable resources like oil, we must run out and the economy will cease to grow. Brookes, however, points out that the relevant energy is mental, not physical. The economy can continue to grow despite the Second Law of Thermodynamics because, as he wrote, "We are always being taught through clearer ideas how to do more with less." And he quotes George Gilder here: "Ideas are not used up as they are used."

Another bugaboo that Brookes smashed was the notion that the trade deficit was some great national disaster. In his "Jobs and the Trade Deficit," he showed that there is in fact no relationship between the nation's trade balance and employment. A few facts, some economic principles, and down crashes a protectionist dogma.

One of Brookes's foremost accomplishments was his explanation of the "tax capitalization hypothesis." Most people are familiar with the supply-siders' enthusiasm for lowering marginal tax rates. Brookes saw that tax cutting would do more than just increase the incentive to earn. It would also raise property values. As he wrote, "every dollar of tax on a piece of property reduces the capitalized value of that property. . . ." When we reduce taxes, we therefore increase the value of property and put more wealth in private hands, wealth that can be used or borrowed against for endeavors that will create still more wealth.

Brookes was versatile, taking on many different subjects. His writings on the environment injected sound economics and science into issues seething with emotion and misinformation. On safety and risk, his pen was the nemesis of the doomsayers who insist on federal regulations to eliminate every minuscule or theoretical risk at great cost. How sad that Warren Brookes isn't around today to attack the pompous Kyoto global warming treaty!

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Unconventional Wisdoms is a treasure chest of commentary on economics, politics, and the environment. Highly recommended! □

Philip Murray is associate professor of economics at Webber College in Babson Park, Florida.

The Templeton Honor Rolls for Education in a Free Society, 1997–1998

Foreword by William E. Simon

John Templeton Foundation/Intercollegiate Studies Institute • 1997 • 193 pages • $3.95 paperback

Reviewed by William H. Peterson

Sir John Templeton, brilliant long-time international investor and co-publisher of this work, established the Templeton Honor Rolls to recognize the best individuals and institutions in American higher education. The recognition brings to mind a thought of Henry Adams: "A teacher affects eternity; he can never tell where his influence stops."

The 1997–1998 Templeton honor roll of teachers features political scientists William B. Allen at Michigan State University and George W. Carey at Georgetown University, law professors Robert C. Clark at Harvard Law School and George Priest at Yale Law School, philosophers Mary Lefkowitz at Wellesley College and Christina Sommers at Clark University, and economists Julian Simon at the University of Maryland and Gordon Tullock at the University of Arizona.

Teachers comprise but one honor roll among the four in this admirable compendium of believers in liberty and order. The three other honor rolls cover scholarly books and textbooks, colleges and universities, and departments and special programs (such as Yale's Center in Law, Economics and Public Policy).

The selection committee, headed by William E. Simon and including Gary Becker, Edwin Feulner, Jr., Forrest McDonald, George Roche, and David Theroux, named Nobel Laureate Milton Friedman as winner of the Lifetime Achievement Award for 1997 and Gertrude Himmelfarb's *The De-Moralization of Society* America's top contemporary book.

Why the Himmelfarb work? Says Mr. Simon, a former U.S. Treasury secretary, in the foreword: "Gertrude Himmelfarb has written a seminal work of scholarship that is at the same time relevant to the many political and cultural debates taking place in America today. Her book reminds us that the free enterprise system rests on moral principles—principles that are, in turn, rooted in a humble faith in God."

Among the finalists for the top contemporary books are *Founding Father: Rediscovering George Washington* by Richard Brookhiser, *Simple Rules for a Complex World* by Richard Epstein, *The Sword of Imagination* by Russell Kirk, *Machiavelli's Virtue* by Harvey Mansfield, and *The Road from Serfdom* by Robert Skidelsky. Each title is perceptively annotated in this volume.

Similarly annotated are entries in the scholarly books and textbooks category, which includes *The Closing of the American Mind* by Allan Bloom, *In Defense of the Constitution* by George Carey, *Capitalism and Freedom* by Milton Friedman, the eighth edition of *Economics: Private and Public Choice* by James Gwartney and Richard Stroup, *Crisis and Leviathan* by Robert Higgs, *The Economic Point of View* by Israel Kirzner, the sixth edition of *American Government* by John Q. Wilson, and *The Catholic Ethic & the Spirit of Capitalism* by Michael Novak.

The John Templeton Foundation, founded in 1987, is an outgrowth of Sir John's philosophy of love and charity that he once articulated in an article for the *New York Times* as follows: "The more we give away the more we have left." The foundation funds some 40 projects, studies, publications, and award programs around the world, including the Templeton Prize for Progress in Religion (worth around $1 million).

The Honor Rolls are a worthy part of the Templeton Foundation's work. The insightful commentary on the winners make this a valuable reference work. □

William Peterson, Heritage Foundation adjunct scholar, is Distinguished Lundy Professor Emeritus in Business Philosophy at Campbell University in North Carolina.

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Assimilation, American Style

by Peter D. Salins

Basic Books • 1996 • 272 pages • $26.00

Reviewed by Rita J. Simon

Author Peter Salins says up front that he had two major reasons for writing *Assimilation, American Style.* First, to tell about the wonderful contributions immigrants have made to American society and to explain how successful their assimilation into the mainstream has been, without the loss of their identities. Second, to take on both the political left and the old-line nativists on the right for their attacks on assimilation and on an immigration policy that allows more than 700,000 immigrants a year to enter the United States.

More than any of the other major receiving nations (Canada, Australia, and Argentina), the United States has had a successful experience assimilating immigrants of all ethnic and religious backgrounds. Salins states very clearly that assimilation does not mean the abandonment of the immigrants' culture and conformity to the behavior and customs of the native-born population. He points to the rich, colorful mosaic that immigrants have created in American society with their religion, music, fashion, food, and other cultural contributions.

Salins emphasizes that assimilation is about national unity. He gives credit for achieving this sense of national unity to American law, policies, and public attitudes. The United States encourages and allows immigrants to become citizens after five years. They then can vote and run for political office (save for the presidency). Speaking the same language, living in the same neighborhoods, and sending their children to the same schools have all contributed to the successful assimilation process that has produced a unified country.

But today, Salins warns, the public schools are the site of strong anti-assimilationist movements that are part of a larger ethnocentrist, multiculturalist movement led by the American left. In the public schools, the three-pronged movement consists of the development of multicultural curricula, bilingual education, and the disparagement of American traditions. Of the three, Salins views bilingualism as the most insidious, not only because of its anti-assimilationist ideology, but because studies have shown that it has been a failure on its own pedagogical terms—immigrant children enrolled in bilingual programs fall far behind their counterparts who are taught all subjects in English.

How do multicultural curricula threaten assimilation? Salins argues that behind its bland facade of emphasizing diversity and inclusiveness, multiculturalism promotes an agenda of ethnic grievances, and a delegitimation of the prevailing national culture. Multiculturalism in the public schools and at the university level focuses on non-Western, non-European influences and contributions. The works of dead white males are either stripped from the curriculum or strongly devalued. Salins argues that "Multiculturalism is explicitly and self-consciously directed toward nurturing an acute sense of ethnic grievance and victimization among the children of ethnic minorities, with ethnic minorities narrowly defined as encompassing only blacks, Latinos, and American Indians."

The third prong of the anti-assimilationist movement is the disparagement of the U.S. Constitution and American heroes and traditions. George Washington was just a rich slave owner, Andrew Jackson caused the Cherokee Trail of Tears, and U.S. foreign policy is always imperialist and evil.

Salins warns that these movements are part of a general emphasis on ethnocentrism that the American left is leading. He argues it is exactly the type of emphasis that threatens national unity and could lead to the balkanization of American society.

But Salins does not only see danger to the successful American style of assimilation and national unity from the left, he also recognizes that the traditional nativist movement that has historically had its base on the right has also joined the attack. The nativists are making their usual argument: these new immigrants—i.e., immigrants who are entering the country now—will never assimilate

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because their backgrounds and cultures are too different. The leading exponent of this view today is Peter Brimelow, who, in his book *Alien Nation*, argues that the current crop of immigrants will change the culture, values, and lifestyle of American society. But of course what Brimelow is saying today is what other nativists have said of immigrants who have come to American shores for more than 100 years, including the Irish, the Jews, the southern and eastern European Catholics, the Chinese, and the Japanese. We were warned about how each of those groups would destroy American culture and society. But all of these immigrants have made extraordinary contributions to the economic growth, public life, and the cultural, aesthetic, and spiritual well-being of this country. The nativists were wrong in the 1880s and the 1920s; they are wrong today.

Salins acknowledges what he calls "the great exception" to the assimilation paradigm: black Americans. Reviewing the history of America's treatment of blacks, which he labels "the greatest betrayal of the American idea," he nevertheless urges blacks not to join the ethnocentric, multicultural movement of the left with its goal of dividing American society. Salins concludes with a hope and a plea that the United States will continue to welcome immigrants from all over the world, that native-born and naturalized Americans will join in helping recent immigrants to assimilate, and that ethnocentrism and multiculturalism will crumble in defeat. □

Rita Simon teaches in the department of justice, law and society, School of Public Affairs at American University, Washington, D.C.

Reputation: Studies in the Voluntary Elicitation of Good Conduct

edited by Daniel B. Klein

University of Michigan Press • 1997 • 318 pages • $57.50 cloth; $19.95 paperback

Reviewed by John Attarian

But a free market just can't police itself. That's why we need government regulation." Many people find this argument plausible, even compelling. But how many stop to ask if the first sentence is really true? *Reputation*, an enlightening and provocative volume of essays, does just that. The answer explodes this argument for regulation.

Reputation, writes editor Daniel Klein (Santa Clara University), explores how "good conduct is sustained even in the absence of an external enforcement authority," and shows how "social affairs can be self-policing." Information tells economic agents which parties are behaving unethically. Markets punish misconduct by withholding business, cooperation, and other benefits. Hence a reputation for honesty is valuable, and ethical conduct is in one's interest. The result? Trust, cooperation, and honesty—without government regulation.

Arranged in three sections of increasing rigor, the essays start, appropriately, with Adam Smith's insight into reputation's power. Probity—tried, proven honesty—always accompanies commerce, Smith argues, out of self-interest. "A dealer is afraid of losing his character, and is scrupulous in observing every engagement. When a person makes perhaps 20 contracts in a day, he cannot gain so much by endeavoring to impose on his neighbors, as the very appearance of a cheat would make him lose."

Even in modern societies with large, mobile populations, Klein and Jeremy Shearmur (Australian National University) maintain, this self-policing mechanism can work. Our ability to gather information about the reputations of others allows us to decide whom we can safely do business with, and fear of negative consequences of gossip about

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ourselves gives us an inducement to cooperate with strangers.

Besides reputation, another valuable asset is an independent, trustworthy seal of approval for a firm or product. Two great American institutions arose privately out of local efforts to provide protection against poor quality: Underwriters Laboratories in electrical product testing, and Dun & Bradstreet in credit rating. Their reputation for rigor and objectivity make their seals of approval valuable and effective means of market self-policing.

Detailed but accessible specialized studies thoroughly explore other historical examples of free-market self-policing, presenting an impressive body of evidence supporting Klein's optimism. For example, the medieval Jewish Maghribi traders formed a coalition that effectively used reputation and sanctions on unethical members to ensure honest conduct from their overseas agents. Bruce Benson (Florida State University) traces how modern commercial law evolved from the private Law Merchant, which developed in the 1000–1200 period, complete with courts, judges, and punishments; the evolution of that law shows that "the commercial sector is completely capable of establishing and enforcing its own laws."

J. Bradford DeLong (University of California, Berkeley) observes that the presence of J. P. Morgan and Company partners on a firm's board of directors added value to the firm's stock, and argues that this was at least partly due to Morgan's massive reputation as an honest broker and superior assessor of risk. The Morgan stamp of approval gave investors confidence that the firms would be well managed and monitored for financial soundness.

The existence of effective private self-policing efforts has radical implications for regulation. Professor Klein argues that "most, perhaps all, quality and safety regulations should be eliminated, that a system based on pre-1960 common-law principles and on voluntary institutions and customs would be an improvement over our current regulatory arrangement." On the evidence, he has a strong case.

Reputation's arguments have powerful commonsense appeal, too. Government regulation, oversight, and auditing are recent inventions. Yet trade flourished for centuries without them. If the free market really were incapable of self-policing, this could not have happened; rational economic agents would not have risked exposure to rampant fraud and malfeasance, and trade would have remained local and low volume. Since it obviously did not, markets must have had effective policing mechanisms grounded in reputation. Evidence from our own lives offers further support. Is not a friend's recommendation or bad report influential in deciding which business one patronizes?

Fascinating, stimulating, and highly enlightening, *Reputation* is a most valuable contribution to our understanding of free markets and how they work. More than that, it is a powerful and timely weapon in the struggle against statism, going far to disprove the canard that people cannot be trusted with freedom. □

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BY BURTON W. FOLSOM, JR.
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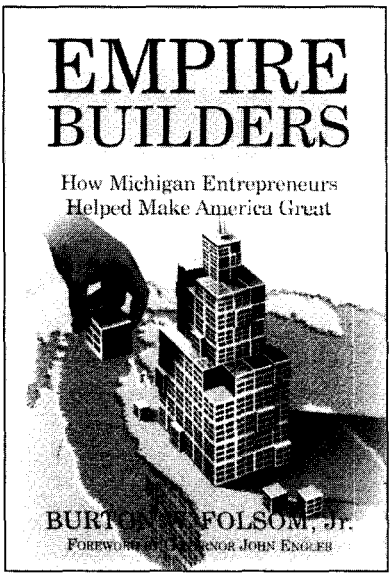

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Dean of James Madison College
Michigan State University

Burton W. Folsom, Jr., is a senior fellow in economic education with the Mackinac Center for Public Policy in Midland, Michigan. He received his Ph.D. in history from the University of Pittsburgh and has taught American history at the University of Pittsburgh, University of Nebraska, Northwood University, and Murray State University, where he was a tenured full professor. He has written *Urban Capitalists* and *The Myth of the Robber Barons*. His articles have appeared in *The Wall Street Journal*, *The American Spectator*, *The Freeman*, *Human Events*, *Journal of Southern History*, and *Pacific Historical Review*.

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